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Policy Review

Capitalists and Commissars

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Why People Riot
LOUIS BOLCE

NATO's Nuclear Strategy
COLIN S. GRAY

Is Racial Discrimination Special?
MICHAEL LEVIN

Every Man a Capitalist
W. H. HUTT

Judging the Judges
DOUG BANDOW

Diary of a Bureaucrat
MINDY FARBER

Lebanon, Poland, the Falklands

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Policy Review is published quarterly by The Heritage Foundation, 513 C St., N.E., Washington, D.C. 20002. Send address change to Business Manager, *Policy Review*. Subscription rates are $15 for one year, $28 for two years. Add $5 a year for foreign air-speeded delivery. Back issues are available for $2.

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Policy Review is available on microfilm from University Microfilms International, 300 N. Zeeb Rd., Ann Arbor, MI 48106. The International Standard Serial Number for *Policy Review* is ISSN: 0146-5945. National distributor for newsstands and bookstores: B. DeBoer, 113 E. Centre Street—Rear, Nutley, New Jersey 07110 (201) 667-9300.

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Controversy

Monetarists Versus Supply Siders (Continued)

Dear Sir:

Mr. Reynolds' argument can be summarized as follows:

1) Monetary targeting is difficult. (Who ever said it was not?) He suggests that it is unworkable, but this is not demonstrated.

2) The gold standard will solve the problem of stabilizing prices.

Suppose step (2) is wrong. Monetarists are not opposed in principle to the gold standard, but they are convinced it cannot be imposed under present inflationary conditions and will not work if tried. I have presented my arguments in support of this contention elsewhere (to be published by AEI this fall as "The Problems of Monetary Policy: Does the Gold Standard Solve Them?") and do not have the space to develop them here. Suffice it to say that the gold standard entails very serious disadvantages, more serious than those of monetary targeting, and does not solve the problem of stabilizing prices.

Mr. Reynolds no doubt disagrees. But this is the issue he needs to address but does not. Suppose I am right and we must put the gold standard alternative aside as unacceptable. What then? Targeting real interest rates is equally unworkable. It might work in a noninflationary environment, but under those conditions monetary targeting would have fewer problems and be better. Monetary targeting is the only feasible method of stabilizing prices, whether one likes it or not. We must face reality and devote our efforts to improving it, (see my paper, "Financial Developments and the Erosion of Monetary Controls" in *Contemporary Economic Problems*, 1979, published by the American Enterprise Institute) and not dillydally with impossible alternatives.

Monetary targeting, to be sure, is the worst method for conducting monetary policy, except for all the alternatives (with apologies to Winston Churchill). Monetarism appears to be demolished by its critics, until one takes pause to consider the criticisms of the gold standard and real interest-rate targeting.

Phillip Cagan
Professor of Economics
Columbia University

Dear Sir:

There is a theme in science fiction—the decline and fall of civilization—in which a crisis of some sort (e.g., nuclear holocaust, plague) destroys society and men retreat to the forests and the caves. More often than not, the return to barbarism (i.e., the rejection of knowledge) is deliberately chosen by the survivors because they believe that it

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was the perversion of science that led to the catastrophe in the first place. The fact that it was not science per se, but rather the sometimes accidental, sometimes intentional misuse of the fruits of science that was at fault is ignored.

This type of story is especially dispiriting because it reminds us how vulnerable the human spirit and intelligence are to external events. It is also reminiscent of the state of economic theory in the early 1980s.

The decline and fall of economic theory is the product of a crisis (i.e., 10-15 years of stagflation) and represents a return to barbarism (i.e., the reascension of classical theories of economics). Because results have been so poor for the past decade, we renounce (instead of modify) everything we have learned about economics since Keynes.

Listen to the new prophets and all our problems will be solved. Forget the complexities of modern economies and institutions. Ignore OPEC, pay no attention to agricultural cycles and do not believe for a moment that oligopolistic labor and industrial markets or social mores will prevent us from reaching the promised land. Just follow the Golden Rule (3% money growth, reduce the wedge), and everything will be hunky-dory.

The great attraction of both monetarist and supply-side economics (especially the latter) is that there *is* such a thing as a free lunch—i.e., that the Phillip's curve tradeoff need not be endured. The fact that the original Phillip's curve was oversimplified (plotting the level of unemployment against the rate of inflation) is used to *prove* the fact that the amount of slack in the economy does not count. The modification of the Phillip's curve by Modigliani and others—showing that the level of unemployment is a crucial determinant of *changes* in the inflation rate—is logical, empirically-based, and overlooked.

If the appeal of both monetarism and supply-side-ism lies in their painlessness, their great error (especially in monetarism) lies in failing to describe how their Golden Rules actually work. How exactly does the Fed control the quantity of currency and checking accounts that I hold? Is the amount of money in my checking account and in my pocket truly a more important determinant of my spending than my (aftertax) income, my wealth, my borrowing power, and my borrowing costs all put together?!? Can we really trace our low productivity to too-high taxation when the data clearly show that we are one of the lowest-taxed peoples in the industrial world? No need to ask the next 100 questions showing the remaining chinks in monetarist and supply-side armor, for Mr. Reynolds and Mr. Congdon have done quite a good job of that. Instead I should make reference to the two great modern experiments with classical (especially monetarist) economics: Mrs. Thatcher's England and Messrs. Reagan/Volcker's United States. Both countries have, to be sure, exhibited great progress in reducing inflation. But they have done so because restrictive policies (mainly tight credit, not steady nor even very sluggish growth in the monetary aggregates) have led to recession. Slack labor and industrial markets have placed downward pressure on wages and profit margins. Very effective, very painful, and very Keynesian.

By "very Keynesian" I, of course, mean that inflation moderated for

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reasons that Keynes would have understood. Whether or not he would have approved is a separate question. But as a technical advisor, Keynes would have undoubtedly advocated some combination of higher taxes, lower spending, and higher interest rates in order to get inflation down.

The next year should be very interesting. The clash between the monetarists and supply-siders should reach a peak. With the implementation of the second stage of Kemp-Roth (a nice, juicy, consumer tax cut that will cause *demand* to explode), economic recovery is certain and the money targets of the Fed are likely to be violated. If so, and if the Fed sticks to its monetarist procedures, interest rates are likely to near or surpass their record highs. Put another way, unless policymakers begin once again to acknowledge what we have learned about economics over the past 50 years, our financial markets will remain in chaos.

David A. Levine
Chief Economist
Sanford C. Bernstien & Co., Inc.

Dear Sir:

I applaud Mr. Congdon's insights into the Laffer-Wanniski wing of supply-siders and their "gold standard evasion." I only wish he had taken note of an argument stressed by Professor Milton Friedman: Raising taxes to plug up budget deficits will encourage the big spenders, always ready to spend all revenue and something more. It is less bad to tolerate deficits temporarily while working to cut spending.

The tone and very title of Mr. Reynolds's article support the attacks on monetarism that are fashionable these days. Monetarists must feel like Alice when her hostess laughingly told the other guests, "If you don't like my casserole, don't blame me, blame Alice; it's her recipe"—this after confiding to Alice that she was trying substitutes for several of the ingredients. Paul Volcker deserves credit for adjusting to the extent he has to experience and to criticism, yet neither he nor any other member of the Board of Governors has become a practicing monetarist; and the few Federal Reserve Bank presidents who might be deemed monetarists join Board members on the Open Market Committee only from time to time. The monetarist call for a defined policy, consistently and credibly pursued, has not yet been heeded. Instead, the markets still scrutinize the tea leaves each week to guess the Federal Reserve's intentions. More specifically, the Federal Reserve has clung to lagged reserve requirements, which decisively hamper implementing a monetarist or quasi-monetarist rule. (The Federal Reserve has recently expressed an intention to shift to contemporaneous or almost contemporaneous reserve accounting, but that shift remains for the future.)

Mr. Reynolds knows the argument "that what we are experiencing is not genuine monetarism." He emphasizes, therefore, that monetarism *cannot* be put into practice. Largely because of recent and ongoing financial innovations (money-market funds, sweep accounts, overnight RPs, overnight Eurodollars, highly marketable credit instruments, cash-management devices, and all that), the very concept of money

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supply has become hopelessly fuzzy, and the velocity of whatever money may be has become hopelessly unstable and unpredictable. A credible policy of stabilizing the buying power of the dollar over the long run could not be implemented by a quantity-of-money rule, furthermore, because prospects for a stable dollar would drastically change interest rates and velocity and so make the quantity approach inappropriate and unbelievable.

Mr. Reynolds can find much support for his position within the Federal Reserve System—for example, in an article in the *New England Economic Review*, March/April 1982, by Frank Morris, President of the Boston FR Bank. He can find rebuttals, too. Mack Ott, writing in the Federal Reserve Bank of St. Louis *Review*, May 1982, and William E. Cullison, in Richmond's *Economic Review*, May/June 1982, present statistical evidence suggesting that a dependable relation between money and total spending is persisting in the face of financial innovations; monetarist policy still would work. (In reaching this result, it helps to redefine money from time to time and make an ad hoc adjustment to the equations used.)

I am not prepared to say which side is right; but the position of Messrs. Reynolds and Morris, if not yet correct, could become correct. The monetarist quantity rule would have become inapplicable precisely because of failure to adopt it unequivocally, credibly, and in due time. The financial innovations that Messrs. Reynolds and Morris emphasize largely represent attempts to wriggle around interest ceilings and reserve requirements made particularly costly by inflation-boosted nominal interest rates, the inflation being due in turn to disregard of monetarist advice. Rejection of a prescribed treatment may allow a disease to develop to a stage at which the original prescription would no longer work and at which some quite different treatment becomes necessary. This does not mean that the doctors who made the original prescription—here, the monetarists—have anything to apologize for. Furthermore, monetarism remains an enduring intellectual achievement, a way of analyzing the performance of economies in which money does have a clear meaning.

Mr. Reynolds is right in asking us to look beyond monetarist prescriptions. The old idea of targeting monetary policy on a broad price index deserves a fresh look. (Mr. Reynolds slides in a curious way, however, from this idea to recommending a fixed price of gold in particular. The gold standard just does not have all the excellent properties he imagines. At one point he appears to forget that the United States *was* on the gold standard as it sank into the Great Depression.)

Underlying the price-index proposal is the idea that incipient monetary disequilibrium would tend to show itself in the index. Movements away from a previously stable price level are symptoms of excess demand for or excess supply of money, either of which, but especially the former, impinges on real economic activity as well as on prices. Monetary policy aimed at price-level stability would coincide with resisting unemployment due to general deficiency of spending while not overdoing monetary expansion in a perverse attempt to cure unemployment of other kinds. The idea is not crucially dependent on any par-

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ticular measure of money, since imbalances between its supply and demand, and not those quantities separately, are what are to be detected and corrected.

The standard objection stresses lags between incipient monetary disequilibriums and their reflection in the price index and between its movements and the taking and impact of corrective actions. These actions might no longer be appropriate by the time they took effect; so trying to obey the price-index rule might prove more destabilizing than stabilizing. But this difficulty would bedevil a sharply shifting policy, not a steady one. The proposal implies keeping some definable aggregate, such as the monetary base or the Federal Reserve's asset portfolio, growing at whatever steady, moderate rate—but not a rigidly constant rate—would keep the price index close to its target level. The index would be the overriding criterion of policy but not the sole guide to day-to-day or even month-to-month open-market operations.

To get around the problem of lags, the Federal Reserve would recognize that pressures of money-supply-and-demand imbalance work on the general price level only sluggishly; so it would watch other indicators of incipient imbalance, such as particularly sensitive commodity prices, industrial-production figures, and possibly even exchange rates, interest rates, and the price of gold. In view of the perverse proclivities of central bankers, however, their legislative or constitutional instructions should insist that any such indicators of incipient disequilibrium serve that purpose only and not be erected into goals rivaling the price-level target.

Once we recognize, with Mr. Reynolds, the importance of a "unit of account that is expected to hold its value over decades," we should consider new ways of achieving such a unit, ways that do not presuppose clever manipulations by the monetary authority. On reflection, it seems preposterous that our unit of value, analogous to units of weight and length, should be whatever value supply and demand fleetingly give to a scruffy piece of paper, the dollar bill (strictly, the dollar of base money). (It is preposterous only in lesser degree for our value unit to be the changing supply and demand-determined purchasing power of a quantity of gold.)

Partly inspired by writings of some of the economists whom Mr. Reynolds mentions, Robert Greenfield and I have elsewhere described how to achieve a stable value unit through almost complete depoliticization of money and banking. The government would help launch the unit by defining it, just as it defines units of weights and measures. The definition would run in terms of a bundle of commodities so comprehensive that the unit's value would remain nearly stable against goods and services in general. The government would conduct its own accounting and transactions in the new unit but would otherwise practice laissez faire toward the financial system. It would issue no money (we are *not* repeating the familiar proposal for composite-commodity money). We can expect that private enterprise, probably in the form of institutions combining the features of today's banks, money-market mutual funds, and stock mutual funds, would offer convenient media of exchange. The separation of unit of account and media of exchange,

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with the unit defined so as to be practically steady in general purchasing power and with the quantities of media of exchange responding to the demand for them and removed from governmental manipulation, would go far toward avoiding macroeconomic disorders and promoting stable prosperity and economic growth. This proposal admittedly seems far out. It would have been unintelligible and infeasible in the past, but developments in economic theory and in technology have made it a live option. Even if one doubts that a majority can ever be persuaded to adopt the new system, comparing it with our existing system and with other proposed monetary reforms is a way of gaining insights into unsatisfactory features of those other systems. It is a way of making oneself receptive to radically new ideas. Monetarism, as Mr. Reynolds says, may no longer be the answer.

Leland B. Yeager
Professor of Economics
University of Virginia

Dear Sir:

This article concentrates on three issues raised in Alan Reynolds' recent contribution to the debate over the efficacy of monetarist policy rules versus a commodity standard or price rule.[1] Evidence is presented indicating that Mr. Reynolds' claims against monetarism do not survive the test of empirical verification. Specifically, I shall examine the data as they pertain to the lagged effect of monetary actions, the problems with defining money and the actual history of previous commodity standards as guides for monetary policy.

Mr. Reynolds argues that monetarist policy based in a managed fiduciary system, i.e., concentrating on a monetary aggregate's growth rate, is flawed because 1) the lags between money growth and economic activity are unpredictable and/or implausible and 2) the definition of money is changing, and, therefore, targeting on one aggregate cannot succeed.

But consider the concern over the observed lags between a change in money growth and economic activity and prices. The empirical evidence points to a relatively short lag between changes in money growth and income growth. Suppose we assume that money growth during the past year will, on average, provide a reasonable forecast of income growth today. Based on this presumption, the empirical record strongly supports the monetarist position that changes in money growth directly impact spending. Using this simple forecasting model for the years 1979, 1980 and 1981, the average error in predicting GNP growth with *only* the previous four quarters' money (M1) growth is 2.8 percentage points. Since velocity's trend rate of growth is about three percent, the error in forecasting GNP growth via the quantity theory ($Y = V + M$) is actually less than 1 percentage point. Recalling that this forecasting experiment is carried out during a period in which monetary policy procedures were altered dramatically, the evidence convincingly supports

1. Alan Reynolds, "The Trouble with Monetarism," this *Review*.

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the quantity theory that Mr. Reynolds passes off merely as a "seductive tautology."[2]

Another monetarist proposition is that inflation can be explained, on average, by the *trend* rate of money growth. While the technical debate over the best estimate of the lag structure continues, overall the evidence outweighs the outcry against monetarism. For example, John Tatom recently has estimated an equation explaining inflation primarily by using the past five years of money (M1) growth.[3] The results for the period from 1955 to 1978, a period contaminated by wage and price controls and the enormous rise in energy prices, indicate that a one percentage point increase in the growth of money results in an equal increase in the inflation rate five years hence. Moreover, the equation explains 75 percent of inflation's variability during this period with an average error of only 1.2 percentage points. Although some may argue about the technicalities involved in these estimations, the overwhelming result is the robust finding that changes in money growth predict observed changes in income growth and inflation more consistently than any alternative policy measure.

The preceding evidence, interpreted within a monetarist framework, indicates that changes in money growth can, on average, predict future changes in income growth and inflation. This is not to say, however, that changing the growth of money supply can be used to smooth out every little wiggle in economic activity. Monetarism, as stated by its proponents, clearly recognizes the difficulty in determining the exact reaction time of the economy to every change in money growth. Thus, the monetarist position is that monetary actions cannot be used to fine tune the economy. Given the empirical evidence, steady, noninflationary money growth will, over time, provide a stable environment in which the economy will grow.

Another aspect of this debate concerns the internal inconsistency of Mr. Reynolds' argument favoring a price rule in place of the current monetary targeting procedure. Consider the story spun by those favoring a price rule: Since we cannot reliably count or control money, policy makers cannot control movements in income or prices by changes in banking reserves. The recommended alternative is, therefore, to control some cyclically sensitive price measure. How is this to be done? The answer is, interestingly, by changing *the quantity of money* in the economy.

2. Others have tested the basic quantity theory propositions inherent in the so-called St. Louis equation for different countries. In testing various forms of the specification for Canada, France, West Germany, Italy, the United Kingdom and the U.S., Dewald and Marchon find that, overall, money growth is the most significant factor explaining the growth of GNP. See William G. Dewald and Maurice N. Marchon, "A Modified Federal Reserve of St. Louis Spending Equation for Canada, France, Germany, Italy, the United Kingdom, and the United States, "*Kredit und Kapital*" (Heft 2, 1978).

3. John A. Tatom, "Energy Prices and Short-Run Economic Performance," Federal Reserve Bank of St. Louis *Review* (January 1981).

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If there is a variable and uncertain lag from money to economic behavior, how could policy makers achieve a stable economic environment by constantly adjusting the money stock to a price measure reflecting the forces of supply and demand? While current policy actions would reflect adjustments to changes in the price index's direction, the economy would be reacting unpredictably to previous variations in money growth. The obvious consequence of such a price rule would be *more*, not less, variability and uncertainty in both money and output growth resulting in a reduction in economic well-being.

Another key argument against monetarist policy is that because the financial environment is constantly evolving, one can never be sure upon which monetary aggregate to focus policy. This argument is by no means new.[4] A common misperception enjoyed by monetarism's detractors is that today's published measures of money, such as M1, must hold true forever. In other words, those who argue against monetarism view changes in the "official" definitions of money as a breakdown in the empirical foundation upon which monetarist policy is built. As David Laidler notes, however, "monetarism is not some rigid orthodoxy, but rather an ongoing, expanding, and above all pragmatic body of doctrine."[5] Selecting a monetary measure upon which to focus policy is the direct outcome of a continuing research program investigating the relationship between various monetary assets and economic activity. Indeed, work done by economists within and outside the Federal Reserve System, both monetarists and nonmonetarists, led recently to the redefinition of the monetary aggregates. This redefinition was a pragmatic response to evidence that changes in the transactions definition of money were taking place. The weight of empirical evidence, not whim nor assertion, led to the present definitions. Ongoing research will, I'm sure, tell us whether future changes are necessary.

Selecting "the" monetary measure is an empirical issue. The evidence indicates that a transactions measure of money (M1) consistently performs admirably as a predictor of future economic activity. Testing the monetarist proposition that sharp, prolonged deviations of money growth below its trend precede economic downturns, the evidence shows that each economic recession during the period from 1915 to 1979 (as designated by the National Bureau of Economic Research) was preceded by short-run M1 growth significantly below its trend level.[6] In *only* one in-

4. Henry Simons raised similar questions in 1936. John Gurley and Edward Shaw revived the debate during the late 1950s. As documented by Donald Hester, financial innovations for the most part represent attempts to circumvent the restrictive regulations that prohibit banks from freely competing for funds. See Donald Hester, "Innovations and Monetary Control," *Brookings Papers on Economic Activity* (1:1981).

5. David Laidler, "Mayer on Monetarism: Comments from a British Point of View," in Thomas Mayer, ed., *The Structure of Monetarism* (W. W. Norton & Co., New York: 1978). Even Mr. Reynolds correctly notes that "Monetarism is properly a method of analysis or prediction, not a policy."

6. The trend is defined here as a twenty-quarter moving average of monetary (M1) growth rates. The short-run growth rate is calculated as a two-quarter

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stance does short-run money growth dip far below the trend growth rate without an ensuing recession. This one instance occurred in 1966—the so-called credit crunch of 1966.

In a recent article, Dallas Batten and I demonstrate that this simple monetarist proposition holds not only for the U.S., but also for several foreign countries. Again, using the M1 definition of money for each country, the outcome was overwhelmingly positive: "Of the 14 recessions in the four countries examined, only one—the IV/1974-III/1975 recession in the United Kingdom—was not preceded by a substantial decline in short-run money growth. Moreover, in only one instance—the III/1975-IV/1976 period for West Germany—did short-run money growth fall substantially below trend without a recession following."[7] If changes in the financial environment have an *appreciable* impact on the relationship between a transactions definition of money and economic activity, the evidence does not show it.

Supporters of commodity standards or price rules argue that shifting to such policy guides would lead us to an economic nirvana of stable prices and strong real growth. Such assertions do not, however, fare well in the light of actual experience.[8] Taking the "classical" gold standard period to be 1879–1913, the annual average percentage change in the U.S. price level was 0.1 percent. During the period from 1946–1979, the figure is 2.8 percent. While the recent inflation rate has been, on average, higher, has it also been more volatile as proponents of price rules suggest? The answer is an emphatic no: the coefficient of variation (i.e., the standard deviation divided by its mean) for the inflation rate during the gold standard era is 17.0 percent compared to only 1.3 percent for the 1946–1979 period. The actual evidence thus indicates that prices were more, not less, variable during the commodity standard era. If inflation variability is related to economic uncertainty, as some have hypothesized, then the evidence suggests that there may have been more uncertainty about prices during the gold standard era.

The evidence also does not confirm the assertion that commodity standards guarantee environments of stable real output growth: from 1890 to 1914 the coefficient of variation of real output growth was 5.6 percent compared to only 1.8 percent during the 1946–1979 period. Not

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moving average. This type of analysis is quite robust to changes in the assumption of trend or short-run money growth. See the research of, inter alia, Milton Friedman and Anna J. Schwartz, "Money and Business Cycles," *Review of Economic and Statistics* (February 1963) and William Poole, "The Relationships of Monetary Deceleration to Business Cycle Peaks: Another Look at the Data," *Journal of Finance* (June 1975).

7. Dallas S. Batten and R. W. Hafer, "Short-Run Money Growth Fluctuations and Real Economic Activity: Some Implications for Monetary Targeting," Federal Reserve Bank of St. Louis *Review* (May 1982). The countries studied are the United States, the United Kingdom, West Germany and Italy.

8. The evidence is presented in Michael David Bordo, "The Classical Gold Standard: Some Lessons for Today," Federal Reserve Bank of St. Louis *Review* (May 1981).

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only was output growth more volatile during the commodity standard era, but the average growth of real output was not significantly different from that of the managed fiduciary system: 3.3 percent for the 1890–1914 period versus 3.1 percent for the 1946–1979 period.[9] Thus, the evidence does not support Mr. Reynolds' claim that a commodity standard system would produce "far more real growth [and] better stability of prices."

The evidence leads me to agree with Robert Weintraub's recent assessment that using a cyclically sensitive price index to guide the expansion or contraction of the money supply is really no different than using the unemployment rate or interest rates for the same purpose.[10] In either case, it represents a misguided attempt to use monetary policy to fine tune the economy, the results of which we have suffered through during the past decade. The evidence presented here and elsewhere indicates that the monetarist policy prescription of steady, noninflationary money growth is the preferable course if the economy is to return to an environment of stable prices and economic prosperity.

R. W. Hafer
Senior Economist
Federal Reserve Bank of St. Louis

Dear Sir:

Tim Congdon has done a fine job of tearing down many of the tenets of supply-side economics. Alan Reynolds has done a fine job of reducing to rubble the monetarist thesis. (The latter is the more remarkable achievement, because at the time of my last extended conversation with him, Mr. Reynolds was himself a monetarist). And *Policy Review* has done a fine job of letting the two of them loose so as to leave behind a battlefield stripped of intellectual life.

It would not be fair for me to join this mélee without explaining where I'm coming from. *Credo*: One, that the health and path of the economy are governed by incentives and disincentives; indeed, that a necessary and sufficient condition for economic activity to occur at all is the existence of an incentive to produce. I'm an "incentivist." Two, that the *price* of money is a far more important government policy target than its quantity, which is elastic and eludes adequate definition. Whether or not these premises make me a "supply sider," I would rather let others judge. I do, however, disagree with much of what Tim Congdon says in his article, to which I devote my allotment of space.

Before we go any further, let's go after him for that old fallacy *post hoc ergo propter hoc*. The Economic Recovery Tax Act of 1981 "has

9. The date are from Robert J. Gordon, "Price Inertia and Policy Ineffectiveness in the United States, 1890–1980," *Journal of Political Economy* (forthcoming).

10. Robert Weintraub, "Monetary Course: Steady as She Goes," *Wall Street Journal* (July 19, 1982).

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been followed by a major contraction in business activity and a fall in tax revenues beneath expected levels." True. *Ergo*, "not much needs to be said about this claim [that large tax cuts would strengthen incentives and...help balance the budget] now." *Non Sequitur*. In fact, having copped out of discussing the Laffer Curve thesis, Mr. Congdon contradicts himself by attributing the recession (rightly, in my opinion) to the Federal Reserve. Whatever the merits of the thesis, this paragraph is a prime example of the disingenuous arguments used by those whose reaction to the name Laffer is felt in the gut rather than the cerebrum. As I see it, the only rational verdict on this issue is, at present, "not proven." The Laffer Curve is not ridiculous—indeed, it is a theorem rather than a hypothesis. Its empirical usefulness deserves better scrutiny.

If I may summarize, the burden of the rest of Mr. Congdon's article is that (in his italics) *the total amount of taxes raised by a government is necessarily equal to the total amount of its expenditure*. Appealing and theoremlike though this may sound (and it has been widely trumpeted) it is just not so. The only way of making it valid is to define "taxes" and "expenditure" in such a way that we are left with a tautology useful only to accountants (and perhaps not even to them!).

Let us instead define "taxes" as the wealth expropriated by government and "expenditure" as the wealth transmitted by government to others. Taxes and expenditure are unequal for several reasons. First, some of the wealth expropriated may be wasted (I refuse to acknowledge as "expenditure" farm goods dumped into the ocean). Second, the government may have resources of its own which never belonged at any time to the private sector. Third, and most important, the fiscal activities of the government diminish productive incentives, and (as Mr. Congdon's article agrees), reduce wealth. They are a negative-sum game. To that extent, taxes necessarily exceed expenditure.

But what Mr. Congdon was *really* saying, of course, was that government borrowing only defers taxation; it does not avoid it. Well, if that was what he meant, then that's what he should have said. I know of no one who would deny the existence of "hidden taxes."

Do supply siders claim "that hidden taxes act as less of a drag on the American economy than visible taxes"? I don't know, but it's not a claim I would make. I would argue only that to impose what Mr. Congdon calls a "visible" tax is a dead end, because it acts as an immediate disincentive to production. The damage is done. But we live in a jungle of disincentives, and I'm confident that, given time, we can dismantle many of them and thereby generate new sources of tax revenue. Deficit finance can buy us that time.

I have one fiscal comment on what Mr. Congdon sees as going so well in Britain in 1981 (the 10 percent gain in productivity). There is no more powerful way of raising productivity than massive unemployment: because it is the least productive workers who get fired first. Product, not productivity, is the objective function.

David Ranson
Partner
H. C. Wainwright & Co.

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Tim Congdon replies:

The central theme of my article was to emphasise that government expenditure and taxation are necessarily equal. That part of expenditure not covered by visible taxation such as income taxes and excise duties must instead be covered by hidden taxation, of which the main forms recently have been inflation, crowding out through high interest rates and debt debasement. There is only one objection to this argument: it is so inescapably true that the supply siders have almost nothing to say in reply. I therefore find myself in an awkward position in trying to continue the discussion. I do not think for example, that Mr. Ranson really disagrees with my article, although he sets himself the desperate and unfortunate task of pretending that he does.

I made it quite clear in my article why government expenditure and taxation are equal. The reason is that all spending by government represents a claim on resources that might otherwise have been used by the private sector. Mr. Ranson's remarks about "wealth expropriated by government," "wealth transmitted by government" and so on are for the most part difficult to understand, but where they can be understood they seem off-target. Mr. Ranson suggests that "the fiscal activities of the government diminish productive incentives." If by this Mr. Ranson means that visible taxation diminishes incentives, I concur. But my point was that hidden taxation has the same result. If the supply siders believe that lower taxes unmatched by lower expenditure will give new zest to the American economy, their underlying assumption must be that hidden taxation does not have these disincentive effects. As the supply siders have been noisy protesters against inflation, their view seems inconsistent. My purpose was to expose this inconsistency.

Mr. Ranson says that, by stressing the inevitable equivalence of government expenditure and the tax burden, I am proposing "a tautology useful only to accountants." The idea may or may not be a tautology, but it is certainly not relevant "only to accountants." On the contrary, I suggest that inflation and unduly high interest rates concern every American citizen. Unless these forms of hidden taxation are eliminated quickly, either by cutting expenditure or raising visible taxes, the Reagan Administration's economic programs will go down in the history books as an abject failure. I am sure that all supporters of sound finance and free markets, including Mr. Ranson, do not want this to happen.

Professor Yeager's criticism—that higher visible taxes take political pressure off big spenders in Washington—seems very debatable. I have, indeed, heard the same argument from Professor Milton Friedman on several occasions. The trouble with Mr. Friedman's point is that it implies that legislators feel more obliged to curb expenditure when they are levying excessive hidden taxation by running a budget deficit than when they are levying excessive visible taxation. Is this true? On July 25th President Reagan supported the proposal in the Senate to push for a balanced budget amendment: on July 27th he laid plans before Congress for a 17 percent increase in defense spending between the 1983 and 1984 fiscal years. It may be wicked and unfair, but the plain fact of life is that both defence and welfare have to be paid for by taxes. If the President's advisers have not told him this already, they ought to.

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Alan Reynolds replies:

Mr. Hafer's selection of studies shows that any slowing of M1 growth will cause (1) a recession within six months, followed by (2) a slowdown in spending within one year, and (3) a reduction of inflation in five years.

From January to June 1982, the monetary base rose at a 9.6 percent rate, but M1 rose at only a 1.3 percent rate. Was that inflationary or deflationary? Over the past five years, the year-to-year growth of M1 was never more than one percentage point higher or lower than its 7.4 percent average. What then made industrial commodity prices fall every month from August 1981 to June 1982?

Mr. Hafer's one-year lag between money and spending implies that my decision to buy a car last August was determined by the amount in my checking account a year before. I did not realize it at the time.

Of course income is related to M1, because income is received in cash or check. If a business adds employees, it has to keep more funds in a checking account to meet the payroll. But the decision to expand employment does not depend on some accidental accumulation of cash that could have been earning interest.

The most serious effort to demonstrate that money causes income or spending, rather than the other way around, was made several years ago in a widely-cited study by Christopher Sims. Professor Sims, however, has since discovered that increases in interest rates precede declines in money growth and "can account for the apparently strong causal role of the money stock."

It is true that firms and households usually hold less M1 before recession, reflecting decisions to reduce payrolls and spending. But this does not prove that the quantity of money is the best target for monetary policy. After all, commodity prices also fall before recession.

Mr. Levine suggests that rising unemployment causes falling prices. Yet commodity prices are a leading indicator of recession, while unemployment is a lagging indicator. As Lord Keynes explained, "The fall of prices relatively to costs, together with the psychological effect of high taxation, has destroyed the necessary incentive to production."

Mr. Hafer seems surprised that following a price rule requires adjusting the supply of money to the demand for it. A price rule does not, however, require defining and counting money, nor does it require the onerous regulation of reserve requirements. Since private monies are convertible into currency, it is, as Eugene Fama has shown, sufficient to simply stabilize the value of currency.

Continual "pragmatic" redefinitions of money make long-term rules depend on confidence in the Fed's researchers. Since there is supposedly a five-year lag between the target and the goal, picking the wrong M could lead to cumulative errors, even if the model made sense.

If the supply of money is steady but the demand for it is not, then steady growth of M1 will not "provide a stable environment." Instead, prices, output and interest rates must then adjust to any shift in the public's desire to hold more or less currency, time deposits or other liquid assets.

In order to know the right amount of money for the next month or year, it would be necessary to (1) predict the "multiplier" between reserves plus currency and M1, to (2) predict "velocity" between M1 and

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GNP, and to (3) predict how much of the growth of GNP would be real and how much would be in prices. Professor Cagan suggests that the burden of proof is on me to show that this cannot be done. After ten years, I suggest that the burden of proof is on the monetarists to come up with a single success.

It is obviously not yet possible to reply to Mr. Cagan's unpublished objections to a gold standard. My Gold Commission testimony corrected the usual errors, though Mr. Cagan may have found some new ones.

I am frankly astonished that Messrs. Weintraub and Hafer pretend to see no difference between stabilizing the value of a dollar in terms of some good and manipulating M1 to somehow affect the unemployment rate.

I do, of course, deny that there is any significant lag between an excess or inadequate supply of money (relative to demand) and changes in spot commodity prices. The lags are in the way we usually measure inflation. Mr. Weintraub recently wrote that "commodity prices...move up and down with changes in M1B growth almost immediately." When that is *not* true, commodity prices capture shifts in velocity that are ignored by watching only M1.

If Mr. Hafer appears to treat M1 as an end in itself, Mr. Levine seems to treat pain as the ultimate objective. Unlike Mr. Congdon's earlier article, however, Mr. Levine's preference for high taxes contains at least one apparent shred of evidence—namely, that "we are one of the lowest-taxed peoples in the industrial world." This is partly true of average revenues that central governments actually collect. It is not at all true of combined federal-state *marginal* rates. If a family of four in New York City earns $50,000, the tax on adding another $10,000 will be 55.3%, according to Price Waterhouse tables. In socialist France, the marginal rate on that added income would be 27.9%.

Those who attribute the global liquidity crisis to U.S. tax cuts are obliged to show that some measure of the tax burden has in fact gone down. Yet the increase in total taxes last year swallowed more than half of the increase in national income.

Mr. Hafer's "evidence" on gold standards allows those who demolished the Bretton Woods gold-based system to take credit for its results. The U.S. dollar was convertible into gold until August 1971, or at least until March 1968. Exchange rates were pegged to the gold dollar. The only relevant comparison is between the past decade and any other peacetime period in any country that honored convertibility.

Besides, the ancient index of wholesale prices was reconstructed from newspaper reports, and is heavily dominated by volatile farm products. It is not reasonable to compare that index with a broad-based modern index that includes computers. Components of the ancient index do show that the spot price of wheat varied in terms of gold when there were bumper crops or droughts. That does not prove that there was *any* systematic inflation or deflation, except perhaps a tendency for relative industrial prices to decline with rising productivity.

I am in broad agreement with Leland Yeager, which indicates that we have both learned from the experience of a decade of monetary vandalism. His excellent analysis is marred, however, by the obligatory

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cheap shots at gold. During the Great Depression, as Professor Friedman and Dr. Schwartz observed, "the United States did not follow gold-standard rules...our money stock moved perversely, going down as the gold stock went up." That shows that rules can be broken, but not that rules are not desirable, nor that an abrupt deflation is possible under a gold standard.

My article mentioned some practical problems with stabilizing a broad price index. Ideal monetary commodities should be sensitive to monetary developments and insensitive to supply disturbances. That rules out farm products, and casts doubt on otherwise good candidates like copper or aluminum that are produced in unstable countries. By this process of elimination, I keep coming back to gold. True, it is a hopelessly old-fashioned idea, like 5 percent mortgages and 4 percent unemployment. But it works.

Stating prices in gold-equivalent units is a good deal less arbitrary and unpredictable than stating prices in "dollars" that have no fixed relationship to anything. A gold numeraire is not only "less preposterous" than managed money, as Mr. Yeager puts it, it is the only system with a decent record of survival. Complex alternatives begin from perceived problems with gold, like the Great Depression myth, that do not really exist. Simple systems are more viable.

There has been some confusion because I state the case for a price rule in general terms while also "sliding-in" my preference for gold. A gold standard is one type of price rule, but a price rule is not a monetary standard. Defining the dollar in terms of gold—"analogous to units of weight and length"—provides a guarantee, facilitating long-term contracts at low interest rates. The crucial mechanism of convertibility is difficult to employ with many goods, and manipulating a basket of goods gives too much discretion to monetary authorities. Under convertibility, an excess supply of dollars will be traded for gold, and vice-versa during a liquidity crunch. Mr. Yeager's "far out" proposal thus becomes quite workable.

A predictable unit of account requires a monetary policy governed by rules, not whim. And those rules must be closely related to the ultimate objective of price stability, not with a five-year lag. Government regulation of various money supplies is increasingly damaging to efficient finance.

National Endowment for Pornography

Dear Sir:

Since going after the National Endowment for the Arts is like shooting fish in a barrel, you ought to hand the gun to someone who won't shoot himself in the foot, as Dinesh D'Souza does by revealing that all those specimen texts may not in fact have been seen by the judges. I feel as though I had just watched a docketful of thugs go free on technicalities in a trial that managed only to besmirch one or two irrelevant reputations.

In apparent confusion over where all that blood is coming from, Mr.

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D'Souza fires wildly into the air, wounding at least one innocent bystander. For example: we are told—without benefit of direct quotation! —that "Another NEA judge, Dara Weir, writes in *Blood, Hook, and Eye* about a lady doctor who instructs a patient in the art of masturbation. Ms. Weir won a grant in 1979-80."

I have a copy of *Blood, Hook & Eye*. By the way, that's the correct title, in case D'Souza has not actually seen the book. On the other hand, I may be mistaken, since the book I own is by Dara Wier (not Weir, as Mr. D'Souza has it). I cannot find a poem that would yield such an interpretation to a competent reader.

In fact, there is no resemblance between any of Wier's work and the texts Mr. D'Souza does see fit to quote. Apparently Mr. D'Souza plays close attention to certain kinds of material, but not to others. But I do wonder how much else he has got wrong.

But who cares? The point is—how can Dinesh D'Souza accuse anyone else of "viciousness...contempt for democracy, and sheer perversity?" I think I'm opposed to governmental support for the arts. I know I'm opposed to guilt by association, lack of critical discernment, and disregard for accuracy. And while I wouldn't expect Mr. D'Souza's editors to verify every quotation, I would expect them to spot manipulated evidence and reject it as unworthy of *Policy Review*—no matter how tempting the target.

Quentin Vest
Houston, Texas

Dinesh D'Souza replies:

The following is the text of Dara Wier's poem "One Woman with the Lady Doctor," found on page 41 of *Blood, Hook, and Eye*:

A lady doctor, scare-crow blonde
with red socks on said:
Have you had intercourse before?
and: No, you're small unless
you work at it you'll bleed.
(remember her red socks.)
and: Start with the thumb,
insert, do you hear me? it
inside your vagina
revolve it around, put in two
now three, there now your whole hand,
Do this every night until
it becomes a simple maneuver
in a week you'll be fit
for a man.

With regard to the correct title of Dara Wier's book, the Chicago *Manual of Style*, which is followed by *Policy Review*, prescribes that the ampersand in the title of a book should be changed to the word "and" when the title is written out in the text. Mr. Vest, our ardent letter writer, is correct about the spelling of Ms. Wier's name, but that does not justify his strong language. I recommend decaffeinated coffee.

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Capitalists and Commissars

PAIGE BRYAN, SCOTT SULLIVAN, AND STEVE PASTORE

The architects of the OPEC oil embargo might have been surprised to be told that their actions would wreak permanent havoc on the global economy and open the door to the most rapid expansion of Soviet political, economic, and military influence since World War II. Certainly, these conservative, Western-leaning sheiks intended nothing more than to rebuke the United States for its support of Israel and to convince the industrial democracies of the true value of oil, which had long been underpriced. The quadrupling of oil prices in 1973, however, produced an historic restructuring of the global economy and a serious weakening of Western geopolitical security.

By late 1974, the oil-producing countries of the Middle East had accumulated an enormous dollar surplus as a result of the price rise ($65 billion), and the consuming nations had amassed the concomitant deficits ($33 billion for the industrial West, and $21 billion for the developing countries).[1] This was to be the largest peacetime transfer of wealth in world history.

It was impossible, at least in the short term, for oil-consuming nations to offset these deficits with exports to the oil-producing nations. Nor could the poorest developing nation's oil importers ever hope to earn sufficient supplies of foreign currency to pay for oil merely by exporting to Western industrial and consumer markets. These nations required emergency action if they were to make the painful adjustments required to offset the OPEC oil cartel. At this juncture, the international banks stepped in. OPEC's burgeoning financial surpluses were deposited in these institutions, which in turn lent them to Third World and subsequently to Eastern European countries.

The views contained in this article are, of course, not necessarily those of the organizations with which the authors are associated. The authors gratefully acknowledge the help and research of Mr. E. J. Gannon.

1. "International Debt, The Banks, and U.S. Foreign Policy," A Staff Report prepared for the Senate Foreign Relations Subcommittee on Foreign Economic Policy, August, 1977, p. (v).

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This recycling of petrodollars was intended as a stopgap solution to the energy problem, but it became a permanent feature of the world financial system. An expansion of international lending became central to the banks' maintenance of steady income growth. The top twelve U.S. banks, for example, which account for nearly two-thirds of the overseas activities of all U.S. banks, derived nearly 50 percent of their earnings from overseas business in 1977. By 1976 the Chase Manhattan Bank, which in 1972 earned only 34 percent of its income overseas, had more than doubled that share to 78 percent.[2] The growth of international banking during the 1970s is a fascinating story in its own right. Suffice it to say that, whereas the price increases of 1973–74 were close to a disaster for national economies, they created a bonanza for the banks. Profit margins improved in response to high demand for the financing of foreign investment by multinational corporations.[3] This profitable transfer of business abroad produced 95 percent of the increase in earnings of the thirteen largest multinational banks from 1970–75. One study shows that international earnings for those banks rose from $177 million in 1970 to $836 million in 1975, while domestic earnings levelled off.[4]

Petrodollar surpluses also created a bonanza for the U.S.S.R. and led to economic trends that would establish the Soviet bloc as a full-fledged player in the increasingly interdependent global economy. First of all, the rapid rise in oil prices vastly enhanced the value of Soviet oil reserves and exports to the West. The Soviets received a windfall amounting to billions of dollars annually as a result of OPEC's cartel action. This allowed Soviet officials to husband precious energy reserves and maintain the same

2. *Ibid.* p. 10.
3. *Ibid.* pp. 1–10.

In 1973, overseas earnings for several large U.S. banks increased sharply, as shown in the Table:

Overseas Earnings of Selected U.S. Banks
(Million U.S. Dollars)
(TE = total earnings)

	'71	%TE	'72	%TE	'73	%TE	'74	%TE	'75	%TE	'76	%TE
Citicorp	72	43	110	54	152	60	193	62	243	70	293	72
Chase Manhattan	43	29	50	34	68	39	89	47	101	56	82	78
Manufacturers Hanover Trust	19	24	29	36	36	60	60	47	68	50	80	56
Bankers Trust, NY	11	19	19	31	26	40	37	52	40	62	37	64
First Nat'l Boston Corp.	4	9	5	12	5	10	5	10	7	16	28	68

4. *Ibid.*, p. 11.

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or higher levels of hard currency earnings—critical savings for a country so heavily dependent on imports of foreign grain and technology.

The oil cartel also bestowed foreign policy rewards on the Soviets by fueling European apprehensions about energy supply interruptions and increasing their willingness to invest in and rely upon Soviet oil, gas, and coal. Throughout the 1970s, the U.S.S.R. steadily expanded its deliveries of oil and gas to Europe and made plans for further extensive energy cooperation. In 1979, estimated Soviet exports of oil had reached 60 million tons, while coal exports amounted to about 7 million tons oil equivalent, and gas amounted to approximately 16 million tons oil equivalent. Given certain mid-range projection assumptions, these amounts could shift to 28 million tons of oil, 7 million tons oil equivalent of coal, and 57–60 million tons oil equivalent of natural gas, making 92 million tons oil equivalent in all. This constitutes a significant share of Western Europe's overall energy mix.[5]

By achieving these energy plans, the Soviets hope to make detente and the economic dependence of Europe on the East irreversible. Such dependence, along with other bones of contention within NATO, could be a potent divisive factor.

Perhaps the most salutary advantage conferred on the Soviet state by the world's oil crisis was a rapid flight of displaced capital to the Eastern bloc nations. The large banks found themselves awash with petrodollars, with few appealing investment opportunities. The industrial democracies were recession-bound, offering weak incentives for investment, and the developing countries were unstable and capital-poor. Eastern Europe appeared to offer the most attractive environment for these assets: a) the governments were stable (and not likely to be overthrown); b) the labor force was skilled; and c) best of all, there were no unions. These pluses were listed as reasons for trade liberalization in the mid-1960s.[6] Furthermore, if financial arrangements with any individual country ran into difficulties, the banks believed that the Soviet Union would extend a protective umbrella over the loans.

The rhetoric of detente provided the political rationale for these

5. *Technology and Soviet Energy Availability* (Congress of the United States, Office of Technology Assessment, Washington, D.C., 1981), pp. 317–318, 352.

6. Emile Benoit, "East-West Business Cooperation—A New Approach to Communist Europe," *The New Republic*. February 18, 1967.

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decisions. The credit floodgates were flung open and U.S. companies joined their European counterparts and subsidiaries in many kinds of investment deals in the Communist world. Before long, hundreds of turnkey projects were planned or executed in many branches of East European industry, even those with military applications. Coproduction, countertrade, joint ventures—(an entire jargon was universalized to describe the deals that were assembled)—were all started on the supposition that these countries would take money and know-how and then manufacture exportable products for Western or Third World markets. Eastern Europe's gross hard currency debt doubled from $9.3 billion in 1971 to $20.8 billion in 1975, and then exploded to nearly $87 billion in 1981, as the redistribution of vast oil wealth to the Soviet bloc took effect. Eastern Europe was able to obtain these large sums on better terms than most less developed countries and even OPEC.[7] Western governments supported the banks and offered large amounts of preferential financing and guarantees to enable their companies to profit from the Western development of Eastern economies.[8]

Foreign Aid for the Soviets?

The U.S.S.R. had given the green light to commerce with the West in the 1960s, partly because it had no other choice. Either it had to open its borders to Western businessmen or loosen the restraints on its own economy. Ironically, trade with the West was the more conservative choice, being less threatening to the ruling elite of the Soviet Union than internal change in the economic system. Professor Gregory Grossman, specializing in Soviet affairs at the University of California, pointed out in the mid-1970s that the Soviets had made a critical decision in the 1960s to accept interdependence with the West precisely as a way of avoiding internal reforms.[9] Western technology, it was hoped, would move Soviet industry off its plateau and onto a new level of development, which economic planning could not generate without either a diversion

7. Paul Marer, "Economic Performance and Prospects in Eastern Europe: Analytical Summary and Interpretation of Findings," Part II, Joint Economic Committee, July 10, 1981, pp. 56–57.

8. Connie Friesen, *The Political Economy of East-West Trade* (Praeger Publishers, 1976), pp. 13–15; 29.

9. "U.S. Trade and Investment in the Soviet Union and Eastern Europe," A Staff Report to the Senate Foreign Relations Subcommittee on Multinational Corporations, December 20, 1974, p. 4.

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of resources away from the military, or far-reaching liberalization in the Soviet economy. Both would have been required without enormous injections of Western goods and know-how.

But the Soviet leadership also perhaps sensed a foreign policy opportunity to undermine U.S. postwar containment policies through trade. Its economic strategies might accomplish what Soviet military forces could not—the gradual neutralization of U.S. influence in Europe. After all, had not Lenin himself taught that the capitalists would gladly sell the rope with which they would be hanged? Soviet officials counted on pitting European businessmen against Americans in competition for Soviet markets, which would eventually undermine the policy of containment instituted after World War II. They knew also they could count on a sufficient number of Western businessmen and bankers to represent their case for importing almost anything from the West, and for doing away with the system of multilateral trade controls that obstructed Soviet access to advanced Western technology. As more countries learned how to produce sophisticated products from U.S. technology, controls became much more difficult to administer effectively.

Under the rubric of detente and interdependence, the West thereupon entered on a massive foreign aid program of government credits and guarantees to the Soviet bloc, which, as banker Felix Rohatyn points out, far exceeded U.S. credits to Western Europe even under the Marshall Plan, even after allowing for inflation.[10] This flow of credits to Comecon might have increased indefinitely, if it had not been clear by the late 1970s that bloc debt vastly exceeded the annual supply of foreign currency being generated to service it.

Eastern nations found they could not sell enough from their sprouting industries to pay the huge debts coming due in the 1980s. They proved unable in many cases to absorb or diffuse Western technology efficiently, except in the military sector. Bottlenecks in supply deliveries, construction delays, agricultural shortfalls, and decreased demand from recession-racked Western economies frustrated the plan to develop industrial products that were exportable to the West, even though the economies were greatly increasing their military strength.

Economist Paul Marer, who has specialized in the study of the

10. Felix G. Rohatyn. "We Cannot Create a Municipal Assistance Corporation for Poland. Let It Go Bankrupt," *New York Times*, April 7, 1982.

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Comecon economies, gives five main reasons why the export growth strategy has failed in Eastern Europe: a) import substitution and industrial policies; b) traditional central planning; c) growing dependency on energy and raw material imports; d) management failures; and e) the protected nature of Comecon markets. Dr. Marer concludes, after extensive statistical analysis, that "...the prolonged recession in the West and other external disturbances in recent years have contributed to, but are not the fundamental cause of their [Eastern Europe's] increased external dependence and vulnerability."[11]

Petrodollars were indeed creating trouble for the entire international economic system. The East's debt, coupled with the debt of the less developed countries (LDCs) to the West, presents a dangerously unstable picture. Debt service ratios (the share of foreign exchange that must be remitted each year for scheduled debt servicing) are now unacceptably high. In 1980 East Germany's was 54 percent; Hungary's was 37 percent; Romania's was 22 percent; Bulgaria's was 38 percent; and Czechoslovakia's was 22 percent.[12] (Banks consider anything over 20 percent to be in the danger zone for creditworthiness.) In fact, there is growing concern on the part of Western banks that simply getting through 1982 may be difficult. Some 45 percent of the $300 billion outstanding in international bank loans is scheduled for repayment this year according to a U.S. official who tracks global lending.[13] The repayment of debts owed to U.S. regional banks, which entered into loans to Eastern Europe with larger U.S. banks, is of particular concern.[14] Most financial analysts seriously doubt the ability of the debtor nations to meet these obligations.

The deterioration of East European debt servicing capability has also reignited a long-smoldering feud between banks and the multinational corporations. Both are owed cash by East European governments, especially Poland and Romania. Because the corporations feel the banks will look after their own interests first, they are under increasing pressure to make independent financial arrangements for repayment. Many companies, including Dow Chemical, Monsanto, and Igersoll-Rand are switching to countertrade (which is a quasi-barter arrangement). "I think much

11. Paul Marer, *op. cit.*, p. 57.
12. CIA, "Projected Estimates of Eastern Debt Levels," 1981.
13. *Business Week*. March 4, 1982, p. 27.
14. *Business Week*, "Regional Banks Cry Foul." July 26, 1982, p. 64.

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East bloc trade is moving rapidly to a situation where only barter deals will be feasible," argues Martin J. Kallen, general manager of Monsanto Europe.[15]

International economists express serious concern and reservations about generating any further growth of countertrade, however, because it is highly unhealthy for the international market pricing system. Countertrade also tends to be a way to circumvent international trade law. For instance, Comecon countries constantly try to deny that they should be subject to special dumping, market disruption, and other safeguard provisions under the General Agreement on Tariffs and Trade (GATT), which has provided the guidelines for the conduct of postwar international trade. Attempts to sidestep such provisions will increase as East European countries become more dependent on exports to service their debts to the West in the 1980s.[16]

The Eastern bloc gains unequal advantage from all this marketplace disruption. As Henry Kissinger recently wrote: "In these circumstances, it is easy for the Kremlin to play Western countries, and even industries, against each other, obtaining benefits not justified by the economic balance of advantage, much less by political circumstances."[17] In this case, the bloc countries play banks and governments against one another. They now argue with a simple but compelling logic: either open your markets so we can sell our goods to earn the hard currency to service our debts, or keep the credits rolling in. Either accept massive and sustained trade deficits with us when we no longer import your goods, or grant us new credits.[18]

Clearly, Western governments are not anxious to allow East European countries to flood their markets with low-priced goods at this time. Their economies are facing keen competition from Japan, South Korea, Taiwan, Brazil, and other newly industrial-

15. *Ibid.*, p. 28.

16. See: *Interface One*, Conference Proceedings on Application of U.S. Antidumping and Countervailing Duty Laws to Imports From State-Controlled Enterprises, Wallace, Spina, Rawson, McGill, eds., Institute for International and Foreign Trade Law, Georgetown University Law Center, 1980, pp. 100–109.

17. Henry A. Kissinger, "Trading With the Russians," *The New Republic*, June 2, 1982, p. 14.

18. These arguments are presented forcefully in a staff paper prepared for the U.S. Department of Commerce, Bureau of East-West Trade, "Projected CEMA Hard Currency Debt Levels Under Selected Growth Assumptions," July 1, 1980, Project D-03.

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ized nations who need export revenues even more desperately than Comecon to pay their energy bills. Such competition builds political pressure in the industrial democracies to hold back increases in imports of cheap goods. So the West-East credit flow continues in order to avoid the day when cheap Comecon goods may have to be dumped on Western markets in order to facilitate debt servicing. Governments have allowed the banks to keep increasing loans to the East in the hope that maybe, sometime down the road, all these problems will work themselves out. Anything is better than being forced into painful decisions that cast serious doubt on the wisdom of previously established lending policies.

The Polish Debt Crisis

Only the outbreak of the Polish crisis, which has shattered the facade of harmony and prosperity in Eastern Europe, has forcefully trained the attention of the industrial West on the strategic effects of massive East European debts. More than any other single event, the unraveling of the social, political, and economic fabric of Poland has forced Western banks and government policymakers to face the disturbing consequences of their lending practices of the past ten years.

Conventional lending to Poland was suspended in 1978. By 1979, Poland's debt-service ratio had reached 92 percent. By 1980, when the grace periods on most of its loans had elapsed, it needed about $2 billion a year to service its debt.[19] Many analysts feel this is too large for the Soviet Union to underwrite. In 1980, however, a large Western banking consortium made an additional grain purchasing loan of $550 million to Poland for humanitarian reasons. The United States government also felt compelled by conscience to extend $670 million to Poland in food credits during 1980. However justified these loans may have been, the reasons for another loan by the U.S. Export-Import Bank of $5.2 million to Bank Warsawié for satellite earth station construction equipment are perplexing. That such credits continued to be made available after private banks had pulled out of Poland is especially surprising. No Congressional hearings have ever been held on the subject.

The complexity and tenuousness of the situation is compounded by the fact that at least three East European economies

19. *Wall Street Journal*, "Polish Debt Puts Western Banks in Bind," Frederick Kemp, July 29, 1982, p. 22.

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are on the verge of default. Concern is mounting that Poland may only be the first of several East European economies off the plank. Romania, the German Democratic Republic, Hungary, and even the U.S.S.R. may not be far behind unless the West risks accelerating world inflation and still further overexposure financially to bail them out. "Communist nation borrowings have become very big, very rapidly and have turned into a strategic consideration—they could bring some banks under," a NATO aide worried as far back as 1977.[20] Even though U.S. banks hold fewer Polish loans than West German banks, they are indirectly tied to the fate of the European banks by inter-bank loans. The "Group of 30"—described as an international banking "think tank"—estimates that over 40 percent of large banks' international deposits are redeposited with other international banks.[21] A move by any one bank to register Eastern loans in the liability column could destroy confidence in the credit standing of all the Eastern bloc nations.

So far, the banks have maintained a Grecian phalanx against declaring default, alert to the fact that if a single bank breaks ranks, the rest will be pressed to follow soon thereafter. The banks will then have two basic choices. They must either write off the loans and call them losses, or they must reschedule the debts. In either case, further extensions of credit, either private or public, will be highly unlikely.

The fear of a Polish-initiated default on its debt of nearly $27 billion, however, is a matter which affects the United States as well as Europe. If the Poles declare default, it could mean the same thing as bankruptcy. As long as the matter hangs in the balance, the Poles can manipulate default as a threat, although a default is supposed to be a Western banking procedure that supports sound lending practices. In July, Poland refused to repay the principal and interest due on several U.S. private sector loans unless new credits were forthcoming. This was a calculated, cynical play designed to wrest additional credits from Western bankers, who had made such assistance conditional upon the lifting of martial law. The tactic seems to have been successful, because U.S. banks are reported to have offered Poland half of the $900 million

20. "The Rising Soviet and East European Debt to the West: Selected Comments," Comments by the Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, April, 1977, p. 12.

21. *The Economist*, July 24, 1982, p. 69.

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it owes in interest for 1982 as new credits, if it would pay by September tenth. Poland owes $7.5 billion in principal and $3–$3.5 billion in interest to the West in 1982. About two-thirds of these debts are government and government-guaranteed lending.[22]

If only a Polish default were declared, however (such a declaration is usually required when any government makes a guarantee payment, or whenever a country fails to make its interest payments), it is probable that the international financial system, while it would be thrown into confusion, would be able to absorb the repercussions nonetheless. Over 50 percent of all U.S. private sector loans to Poland are guaranteed by the U.S. government, and would be covered in a default. A similar portion of West European banks' debts are covered by government guarantees or financing.[23] The U.S. government had in fact already transferred $71 million by January to private banks for principal and interest payments not met by Polish state agencies in 1982. This figure has since reportedly grown to over $125 million.[24]

That there is no easy exit for Poland or for its creditors becomes more obvious with each passing week. The Polish economy is in shambles and could be near the bottom of its precipitous economic descent. It desperately needs new financing, spare parts, supplies, and access to Western markets. But the West has so far refused all assistance until Lech Walesa is freed, martial law lifted, and an honest dialogue initiated between the military government, Solidarity, and the Polish Catholic church. General Jaruzelski, in turn, has refused to consider acquiescence in these demands until political stability is assured.

As these incompatible purposes collide, Poland continues to slide. Optimists in Western business and banking communities nevertheless shrug off negative prognostications just as Lawrence Brainard, vice president of Chase Manhattan Bank, sought to assuage already serious concerns about the Polish situation in 1977. "My impression is," he told the *International Herald Tribune*, "that the East European debt is not too high. As for the Poles," he asserted, "they themselves feel they have gone as far as possible... But there is nothing to suggest that the problem is out of

22. *Wall Street Journal*, "Polish Debt Puts Western Debt in Bind," *op. cit.*
23. Felix G. Rohatyn, *op. cit.*
24. *New York Times*, "U.S. Will Repay $71 Million Due on Poland Debt," Ed Cowen, January 30, 1982, p. A2.

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hand or that they face a credit crunch.''[25] Others point out that credits are tied to export-generating industries, or that the Comecon debt is smaller than that of the Third World. These considerations do not answer the question of how the Poles or the Hungarians can make their payments next month or the month after that.

In May 1982, the Trilateral Commission published a report on East-West trade just prior to the Versailles Summit, which projects a similar optimism. According to its authors,

> Unless all the major Western sources of credit decide to quarantine the [Comecon] countries as a group, and this seems an unlikely prospect, the economic positions of four East European countries—Czechoslovakia, East Germany, Bulgaria, and Hungary, as well as the credit standing of the U.S.S.R.—would seem capable of supporting enough additional credits to prime a renewed expansion of Western trade flows to them, whenever a relaxation of political tensions makes that appropriate.[26]

It requires a unique kind of courage to promote trade expansion with the Eastern bloc when its debts are reaching the $90 billion mark, and while Poland is still under martial law, Soviet troops and ''advisors'' occupy Afghanistan, and the Reagan administration (in response to this blatant aggression) is exerting all its political will to herd the alliance in the opposite direction.

But the Trilateral Commission knows a terrible secret, which, like the scandal of white slavery in nineteenth-century England, can only be discussed among gentlemen in private. Behind the measured and modulated open debate within the alliance about East-West commerce, there is alarm, if not panic, about the West's predicament. Still, all the banks can suggest is more of the same, in hopes that the Eastern bloc can be put on the road to industrial recovery with Western subsidies, and that the Soviets will somehow limit their provocations in gratitude for all the West has done for its satellites and its own economy. This solution, however, would not really serve the West's long-term interests. It would only propel the Soviet Union closer to permanent dominance in the balance of world power, which could have ruinous implications for Western security.

25. ''The Rising Soviet and East European Debt to the West...,'' *op. cit.* p. 4.

26. Trilateral Commission, ''East-West Trade at the Crossroads,'' May 28, 1982, p. 73.

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Trouble in the Pipeline

In 1979, two events catalyzed the signing of contracts for the largest East-West trade deal in history. The Saudis allowed the OPEC price of oil to more than double, making natural gas more economical compared to oil for the time being; and an Iranian-Soviet-European natural gas swap-deal collapsed with the fall of the Shah, making it more urgent for the Europeans to find new energy supplies. As a result, the Soviets and several European governments began serious negotiations on a 3,600-mile natural gas pipeline from northern Siberia to France, West Germany, Austria, and Italy. The pipeline has generated enormous controversy. It epitomizes the kind of national security risks that can be incurred through economic dependence on a potential adversary. In this case, fundamental national security interests in both the United States and Europe are contending with the economic logic for building the pipeline. Recently, however, changes have occurred in the international energy market, and weaknesses in financial arrangements have come to light, which make the economic logic less convincing and strategic arguments more salient.

The economic logic offered for building such a pipeline has a surface appeal. European governments hope not only to diversify their energy supplies, but also to provide thousands of jobs for their depressed manufacturing industries. In addition, Soviet gas is rumored to be competitively priced at about $4.35/MMBTU rising to a minimum of $5.70 by 1984.[27] As an alternative to OPEC oil, then, Soviet gas appears to be a good option.

The Europeans also advance the argument that the pipeline can help preserve reasonably good relations with the U.S.S.R. despite superpower confrontation in other areas. There is still the hope on the part of some in Europe that detente can have a positive influence on Soviet external behavior, or at least deter Soviet hostilities in Europe.

U.S. companies have also supported the pipeline for economic reasons. General Electric and Caterpillar hoped to supply gas turbines and pipelayers for the project, although these contracts were rescinded as a signal of U.S. disfavor after the Soviet-ordered oppression of the Polish workers' movement, Solidarity. The oil companies of the United States and Europe are particularly interested in seeing the deal come to fruition. The West German affiliates of three U.S. oil companies—Exxon, Mobil, and Texaco—together

27. *Wall Street Journal*, "Pipeline Basics," August 11, 1982, p. 22.

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own 25 percent of Ruhrgas, the German utility that will import Siberian gas for distribution to the rest of Europe. Shell and British Petroleum own another 39 percent of Ruhrgas stock, giving Western oil firms two-thirds control of the company.

Four of the largest U.S. bank holding companies, Chase Manhattan Corporation, J. P. Morgan and Company, Citicorp, and Manufacturers Hanover Trust, also have a deep financial and commercial interest in the pipeline. Each of these firms holds substantial stock ownership in one or more of the oil companies or equipment manufacturers involved in the project. The Chase Manhattan Corporation, for example, is the number one voting shareholder in Exxon and the number three voting shareholder in Mobil. The Morgan Guaranty Trust Company is the number one voting shareholder in Mobil, number two voting shareholder in Caterpillar, and number one voting shareholder in General Electric (producer of the MS 5002 gas turbine to be used on the pipeline). Citibank is the number one voting shareholder in Caterpillar, number two in General Electric, and number five in Exxon.[28]

The Comecon debt is another reason why Western banks favor the pipeline deal. Soviet natural gas deliveries could help service the debt, or at least act as an "umbrella." This means that some of the largest international banks have developed vested interests in the success of the U.S.S.R.'s Twelfth Five-Year Plan (1980–85), which may be extremely threatening to the West's long-term security interests if completed on time. Western banks and oil companies therefore stand to realize large portions of the anticipated pipeline profits over the twenty-year life of the project. Total proceeds could range from $200–$300 billion (roughly three times the current Comecon debt), depending on the price of the gas and the volume at which it is delivered.

One of the most important facts that make the pipeline project economically viable is the West European governments' offer of generous government guarantees and subsidized financing for its construction. The French government is underwriting its portion of the deal by providing government loans at 7.8 percent—less than one-half of what the Soviets would pay at current rates. Despite the efforts at Versailles to reduce government-insured and direct credits to the Soviet bloc at low interest rates (the vaguely-

28. *Voting Rights in Major Corporations*, Staff study prepared by the Subcommittee on Reports, Accounting, and Management, Senate Governmental Affairs Committee, January 1978, p. 22.

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worded communique has in general been repudiated by European governments), in July 1982 a consortium of West German banks signed an agreement with the U.S.S.R. for $1.6 billion in government-guaranteed commercial credits for financing equipment deliveries to the project. The financing amounts to 85 percent of total orders to West German companies and is guaranteed through the state-owned Hermes Credit Insurance Company.[29]

The Soviets are pushing for the completion of the pipeline in response to their own economic exigencies. Their economy could be facing a crisis of some proportion in the 1980s. Soviet annual growth rates during the Eleventh Five-Year Plan (1975–1980) fell far short of their targets; at 2 percent annual growth, the GNP was growing at one-half of the projected rate. Industrial production, at 3 percent growth, fell short by the same proportion. The performance in agriculture was abysmal—three successive disastrous harvests.[30]

The Soviets face various challenges: technological obsolescence in certain industries; changing demographic trends that disadvantage European Russia, where most industry is located; escalating costs of maintaining a far-flung empire, including Eastern Europe; and the challenges of developing Siberia's valuable mineral and fuel reserves.

Soviet oil productivity is tapering off, which has caused great concern to Soviet leaders because increments in Soviet economic growth are closely correlated with energy inputs, more so than in most of the industrial democracies. Although the precipitous decline in oil productivity predicted in 1977 by the Central Intelligence Agency (CIA) has not materialized, there are signs that Soviet oil production may level off and decline sometime in the 1980s or early 1990s. As this happens, Soviet leaders will be forced to choose between cutting internal consumption (which will impede domestic economic growth); cutting generous oil subsidies to Eastern Europe (estimated at $10 billion)[31]; or cutting oil exports to Western Europe (which provide nearly two-thirds of Soviet annual hard currency income, with which it imports badly needed grain and technology from the West). If forced to meet

29. *Wall Street Journal*, July 14, 1982.
30. *New York Times*, "Putting The Squeeze on the Soviets," Anthony Lewis, August 1, 1982, p. E2.
31. *Technology and Soviet Energy Availability, op. cit.*, p. 287.

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these challenges on their own, the Soviets will undoubtedly have to reduce military spending.

Sales of Soviet natural gas to Western Europe could substitute for and augment oil sales earnings at least in the medium-term. They could also provide the energy needed to hold economic growth rates in the plus category. It should be noted, however, that the natural gas pipeline to Europe will not necessarily resolve Soviet oil troubles. The Soviet Union may still require oil from the Middle East to meet the energy demands of its satellites, and will have a permanent incentive for involvement in Middle Eastern affairs and for disrupting Western access to OPEC oil supplies, despite the Siberian pipeline. Soviet leaders will be reluctant to cease oil exports to Eastern Europe entirely, because energy is an important umbilical cord tying these countries politically to Moscow.

The natural gas pipeline will spur East-West trade and revitalize the Soviet economy just as Soviet leaders reach a juncture at which they may well be forced to choose between economic stagnation and some sort of internal reform. As noted previously, when the Soviet Union chose to trade with the Western democracies in the 1960s, it was most probably trying to avoid the economic reforms then being proposed by certain Soviet economists, which were needed to lift the economy to a new level of development.

Making Europe Vulnerable

The economic reasons for building the Siberian pipeline are offset by other considerations being advanced by government officials and analysts concerned about the security implications of the deal. Instead of a solution to the West's credit and energy dilemmas, the Siberian natural gas pipeline may be the one project which gives the Soviets permanent political and economic leverage over Western Europe.

Like a tightening noose, the pipeline threatens to increase West European dependence on Soviet energy to an alarming level. Already, a significant amount of gas is delivered to Europe by the Soviet Union through the Orenburg pipeline completed in 1978. Add to this the residual fuel oils and coal that Europe purchases from the U.S.S.R. and Poland, and you have what could become a shift in total West European energy dependence from OPEC to Comecon by 1990, if the pipeline is built. Soviet oil provides close to 5 percent of all West European oil imports, and East European

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coal provides about 15 percent of the coal imports.[32] A high Soviet share of Europe's total energy market is equally, if not more, threatening to Western political and economic security than a possible cutoff of one gas pipeline.

Everyone realizes that if a cutoff of any gas deliveries were threatened, a prearranged substitute source would be expensive to secure and substitute supplies would be uncertain. As energy expert, Elihu Bergman, Executive Director of Americans for Energy Independence, points out: "Unlike oil, which is stockpiled as a buffer against unforeseen cutoffs of imports, there are no comparable facilities for reserves of gas."[33] It is also difficult to switch from one gas supplier to another because a pipe must be available, and there must be enough excess capacity on line at the time the switch becomes necessary. Switching to an entirely different source is also problematic within a short period—more so for households than for industries. (In Germany, one-third of the Soviet gas deliveries will be going to private residences.)[34]

Under such circumstances, will not European leaders be at least passive towards, perhaps even inclined to support, Soviet foreign policy initiatives if faced with a choice of switching vital energy resources or rendering diplomatic assistance? This could be most dangerous on Third World matters, where the United States is already out of step with its allies. North-South economic issues are likely to dominate the international foreign policy arena during the remainder of the 1980s. If the West were energy independent, it could more successfully retain its unity and individual sovereignty on questions of economic development in the Third World. This also applies to international resources, such as outer space, international frequencies, and the deep seabed minerals affected by the Law of the Sea Treaty. The respective roles of government, free enterprise, and supranational structures will be the focus of the international debates of the 1980s and 1990s and will undoubtedly have far-reaching political repercussions in all countries. It is disconcerting, to say the least, to think of Europe voting with the Soviet Union on such questions.

32. *Ibid.*, p. 354, 367.

33. Bergman, Elihu. "U.S. Must Offer Alternative to Soviet Energy," Journal of Commerce, December 7, 1981.

34. *Ibid.*

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But the most important security concerns associated with the pipeline are military. Proceeds from gas sales to Western Europe will enable the Soviets to purchase billions of dollars worth of technology to be applied to strategic and conventional force buildup. Even a delay in this process is considered important for Western security by strategic analysts. If half of the annual earnings from the pipeline were invested in military advancement, it would represent a formidable financial-cum-military challenge to Western democracies. The cost of offsetting Soviet military spending with defense spending in the West would be enormous and politically infeasible.

Leaving these foreign policy questions aside for a moment, *is the pipeline really good business?* There are important financial and other economic aspects of the pipeline deal which argue that the project might be just plain uneconomic for the Europeans. The Europeans have themselves assumed the burden of recouping $15 billion invested in building the pipeline. Even if more secure sources of energy become available, they will be forced to purchase Soviet gas in order to recoup these investments.

Furthermore, the Soviets might be forced to raise their prices if their unit costs go up, as some observers predict. If the Soviets use smaller turbines than those that can be built with U.S. equipment, for instance, their throughput of gas will be less efficient, which puts pressure on them to raise prices. They are now also lacking about half the purchasers they originally planned on.[35]

After the pipeline has been paid for with gas (according to the barter deal between the Soviets and the Europeans), the Soviet Union will be able to monopolize the European gas market, because of the nature of the Soviet centrally-planned economy. The Soviet Union will be able to continually undercut the price of any gas competitor if it chooses, and thereby prevent the building of alternative pipelines. This would pose a permanent threat to Western Europe's security.

It thus becomes clear why alternatives to the Siberian gas pipeline must be the product of government policy (i.e. to remove the public sector supports for the deal) and cannot be the product of the marketplace alone. It took government intervention to provide the vitally needed credits to make the deal viable. It will take government intervention to remove them or to push consumers in another direction. At its present level of development and tech-

35. *Wall Street Journal*, "Pipeline Basics," *op. cit.*, p. 22.

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nological capability, the Soviet Union has the market sewn up because of its ability to hedge. It does not have to make a profit, whereas other gas producers competing in the market must cover costs and pay their shareholders.

It is uncertain at present how high European demand for Soviet gas will go. The future of the European gas market at this moment is cloudy. Such growth of Europe's energy market in general has slowed. A surplus of oil has produced cutthroat competition among companies with gas to sell.[36] Much will depend on events in the Middle East, but relatively cheap oil may continue to be available for the rest of the 1980s, making gas less attractive. Even with these market factors weighing against the business side of the Siberian pipeline at this time, the centralized Soviet system could maintain an economic advantage. It could simply hold the price down in order to drive competitors out—predatory pricing by state monopoly. This is a perfect example of the economic leverage the Soviets will acquire over the working of the free market, if given the chance. In addition to the drawbacks of Soviet monopoly, European government financing for the project ties up capital that could be invested at home, providing many jobs and generating less inflationary economic activity.

Turning to the argument that the pipeline will permit the East Europeans to pay their debts, it is not altogether certain that the Soviet Union will use its gas earnings to service East European debts to the West. The Soviet Union would be more likely to put tremendous pressure on Western countries to relax antidumping and countervailing duty laws in order to accept huge quantities of cheap imports from the state-controlled East European economies. These imports would displace many of those from the LDCs, with whom the Comecon countries compete for Western markets, and would disrupt Western pricing systems. The possibility of dumping by state-controlled economies is not at all remote, and may be a problem of great concern during the 1980s. Even though the cases are rare in the United States at this time, two-thirds of the dumping cases brought to GATT by the EEC are against Comecon countries.[37]

All in all, therefore, it is quite possible that the pipeline will not solve Western banks' problems, and will just pile up more debts

36. See: "LNG Parity With Oil Clouds Future of European Gas Market," *Oil and Gas Journal*, April 19, 1982.

37. *Interface One*, *op. cit.*, p. 104.

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against them. One London stockbroker, Philip Kapadia, thinks the U.S.S.R. will be forced to cut its gas deliveries in order to deliver larger supplies of subsidized gas to Eastern Europe to prevent further economic collapse. An oil and gas consultant, Charles Maas, has said recently that the Soviet-West European gas pipeline is likely to do little business and that "several European countries may pull out of the project."[38] Whatever the dependability of these assessments, there are definitely doubts about the economic necessity of the pipeline for the Europeans at this time. But Western economic assistance to the Soviet Union did not begin with the oil price rise of 1973. There is a long genesis of U.S. assistance to its enemies.

The military, economic, and political arguments against allowing the Siberian pipeline to be built are becoming more persuasive as time goes by: (1) Not permitting the pipeline to go through would allow alternative gas suppliers to compete on the market and avoid a Soviet monopoly. (2) European governments could generate many jobs, with less inflation, by investing the public sector credits offered for the deal in their national economies. (3) The pipeline must be stopped if we are to begin a slowdown of militarily significant technology transfers to the Soviets during a particularly vulnerable time for the West (as we shall see in the following section of this article) and an expansionist phase in the U.S.S.R.

Arming the Foe

In 1876, George Armstrong Custer, commander of the glorious Seventh Cavalry, rode confidently into the largest Indian army a white man had ever encountered. He probably didn't have much time to weigh the costs and benefits of U.S. arms trade with the Indians. Doubtless, Custer would have found little comfort in the fact that the Indians that cut his columns to ribbons were equipped with the latest repeating rifles produced by American munitions companies, while the U.S. cavalry fought with outdated ordnance.

We are a long way today from the Indian wars of the nineteenth century. But Soviet leaders do not have to study American history to realize that all they have to do to develop an important strategic advantage over the West is trade with the West's largest industrial corporations. They save billions of dollars in research and development outlays. They drastically cut the lead-time in the ap-

38. *Journal of Commerce*, Unicom News, London, "Shortfalls in Soviet Oil, Gas Supplies of 2 Million Barrels a Day Forecast," July 9, 1982.

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plication of scientific knowledge to manufacturing techniques. They dramatically accelerate the development of specific sectors of their military-industrial base. The output and capabilities of their conventional and nuclear weaponry are quantitatively and qualitatively enhanced, and capital resources transferred to the U.S.S.R. enable it to arm and fund anti-Western movements and countries in faraway corners of the world.

Did we realize in the late 1960s, as we liberalized trade policy with the Communist bloc in pursuit of detente, that the Soviet Union would succeed in: a) undermining the U.S. strategic deterrent as a basis for European security; and b) building and equipping the Warsaw Pact to be the largest-ever conventional ground force?[39] Not only is the feat striking in itself, the short period of time in which it has been accomplished is phenomenal.

Beginning in the 1960s, and accelerated in 1972 by President Nixon's trip to Moscow and the signing of a Trade Agreement and eleven scientific and technical agreements between the U.S. and the Soviet Union, the U.S. system of national security export controls was, in practice, partially dismantled. Considerations for the approval or denial of validated licenses for the export of goods on embargo lists, both unilateral and multilateral (under the 1950 voluntary embargo agreement called COCOM), were progressively relaxed until there was almost no turning back. Exceptions to the multilateral embargo, which require a consensus vote by the representatives of participating countries, became common. In short, the political decision in the U.S. to encourage East-West trade gradually permeated the attitudes of those who administered the system at lower levels. This happened to such an extent that the Poles reputedly bragged to U.S. Department of Commerce officials in 1980 that they could get anything they wanted, regardless of whether it was on the COCOM list or was controlled by the United States.

Prior to the U.S. decision to liberalize its East-West trade policy, controls were essentially effective. Even though the West Europeans exported almost $3 billion worth of goods to the Comecon (Soviet bloc) countries in 1965 (a fact which was cited in favor of liberalizing U.S. policy), compared to only $285 million in total

39. For a detailed discussion of these issues, see: *National Security and Detente*, (with contributions by faculty members of the U.S. Army War College), foreword by General Andrew J. Goodpaster, Thomas Y. Crowell Company, New York, 1976.

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trade by the United States, only a minute portion of European exports represented exceptions to the COCOM list.[40] Furthermore, very little U.S. technology was as yet being produced abroad by U.S. subsidiaries. It was detente that propelled U.S. high technology companies into East-West trade and the Soviet Union's capability to threaten a substantial tilt in the balance of power to a new level.

A vast array of U.S. technology and equipment has been exported or reexported, legally and illegally, to the U.S.S.R. and Eastern Europe during the 1970s. These shipments have all lent sophistication and cumulative productive capability to Soviet military might. About 20 percent of the Industrial West's total exports to the communist countries is classified as high technology.[41] Much of this originates in Europe, but it is impossible to estimate what proportion of these exports is from U.S. subsidiaries and manufacturing associates or licensees.[42] This represents an inestimably important qualitative contribution to Soviet military development. The significance of such sales is also understated by the dollar values. A highly sensitive item can cost anywhere from $200 to $2 million. High technology is also transferred through direct investment by U.S. corporations in the communist countries. Such transfers occur through coproduction arrangements, licensing, turnkey projects, sales of patents, and joint ventures. It is impossible to calculate the military sensitivity of such transfers.[43]

Those who wish to downplay the significance of military and national security considerations often argue that the Soviet economy is weak, that its growth rates are low in many sectors, and that its ability to feed the population is chronically inadequate. Such arguments imply that the West should not worry about the so-called Soviet threat to Western influence in the world. But this view does not adequately allow for the generally held opinion among Soviet experts that the Soviet economy is a mobilization economy. Every Five-Year Plan has been structured to build up

40. *East-West Trade*, Volume Three, Hearings before the Senate Banking Committee, 1968.

41. The Industrial West comprises fifteen major industrial countries that export to the Soviet bloc and include: Austria, Belgium, Canada, Denmark, West Germany, France, Italy, Japan, Luxembourg, The Netherlands, Norway, Sweden, Switzerland, United Kingdom, and the United States.

42. *Technology and East West Trade*, U.S. Congress, Office of Technology Assessment, Washington, D.C., 1979, p. 51.

43. *Ibid.*, Chapter Seven.

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the hard industrial sectors, essential to military power, rather than the consumer sectors. Thus, the U.S.S.R. can represent a formidable threat to its adversaries on terms of pure physical power and still may not be able to generate internal economic growth. It may not even necessarily be able to adequately provide for the welfare of all its citizens. The latter should be considered a liability for Soviet leaders, but not one likely to make them change their internal policies unless forced to. Soviet party leaders have been able to control their populations for sixty-five years, and those of Eastern Europe for at least thirty. As a small example of how this is done, on July 30, 1982, the Soviet Communist Party announced that its was tightening control over Soviet literary journals so they will "better educate" the masses about party goals such as correcting food shortages.[44] Total control can ignore internal pressures, especially if there is external assistance.

It thus makes sense for the West to examine examples of West-East transfers that have contributed to Soviet military development. Such knowledge is mandatory if we are to understand the important balance of power considerations associated with such trade and not be caught in the trap of focusing solely on market and profit arguments for trade with adversaries.

American Technology, Russian Guns

The U.S. defense industrial base is suffering severe geriatric pains produced by aging facilities and machinery, manpower and critical mineral shortages, inflation, and increasing delivery times. In contrast, the Soviets have built an imposing defense industrial base since the late 1950s—the largest in the world. They have amassed the plant and equipment necessary to build annually thousands of tanks, trucks, aircraft, and dozens of huge naval vessels.[45] The Soviets built much of the foundations for their industrial base with technology acquired from the West in the 1920s and the 1930s from companies such as General Electric and Ford. They developed excellent methods for the refinement of steel and for the improved oxidation resistance of superalloys, which are used to upgrade the performance of aircraft, missile, and naval systems. Today the Soviet Union is the world's largest producer of titanium alloys.[46]

44. *The Washington Post*, July 31, p. A14.
45. *Soviet Military Power*, U.S. Department of Defense, July, 1981, p. 45.
46. *Ibid.*, p. 78.

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This was done during the 1970s, when the industrial democracies exported billions of dollars worth of automated machine tools, precision instrumentation, and associated technologies, with which the Soviets expanded and refined fundamental industrial capabilities mastered earlier. The Soviets have produced and launched more than seventy-five spacecraft per year since 1971. This is four-to-five times as many as the United States has.[47]

In 1970, the Soviets started discussions with Ford Motor Company concerning the construction of the largest truck manufacturing factory in the world at Kama River, which is 600 miles east of Moscow, on the banks of a Volga tributary. These discussions proved unfruitful because the U.S. government opposed the project, but in 1972, upon his return from Moscow, President Richard M. Nixon made the Kama River Truck Plant the linchpin of detente. Almost everything the Soviets have ordered from U.S. companies for the Kama River Plant since then has been licensed. Several times during the decade, strategic technology has been transferred to the facility. In 1975, the U.S. allowed a large-scale IBM 360/180 computer system to be delivered to the plant.[48] The Soviets envisaged that by 1980, when the complex was operating at full capacity, it would produce 150,000 trucks and 250,000 diesel engines annually (more than all U.S. truck producers combined). The plant represented a desperate effort to quickly overtake the United States in numbers of trucks. In 1971, the U.S.S.R. had some 4.6 million trucks, as opposed to some 120 million in the United States.[49]

Pullman Dressler eventually became the principal engineering contractor for the project. Western Europe as well as the United States built it for the Soviets—and the rest is history. Although the trucks were to be used only for civilian purposes, Dr. William Perry, Under Secretary of Defense for Research and Engineering, testified before the Senate Banking Committee in 1980 that "general purpose trucks of Kama origin have been sighted with Soviet military units in Eastern Europe and Afghanistan."[50]

The Kama River Truck Factory provides a good example of a general-purpose installation that can be vital to the expansion of

47. *Ibid.*, p. 79.
48. Business International, *Eastern Europe Report*, June 27, 1975, p. 182.
49. Charles Levinsen, *Vodka Cola* (London: Gordon and Cremonesi, 1978), p. 230.
50. "Transfer of Technology to the Soviet Bloc", *op. cit.*, p. 71.

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the Soviet defense industrial base. It is often misleading to judge the national security significance of exports on the basis of whether or not they are "high" or "low" technology. The strategic use of the export, in many cases, would be a preferable criterion. Senator William S. Cohen recently remarked at a hearing on technology transfer to the Soviet bloc that "the distinction between implements of war and peaceful goods has been so blurred that whether or not something is a sword or a plowshare depends not so much on how it is made, but on how and by whom it is used."[51]

The United States has also transferred high technology (including laser parts) to the Zil Likhachev automotive laboratory in Moscow, with full knowledge that thousands of Zil trucks were being "hardened" into missile launchers and army personnel carriers. The U.S. had earlier objected to a British request for making an exception to the COCOM embargo on such equipment.[52] In many cases, foreign availability has been the criterion used to license U.S. technology to the Soviet bloc. This term means that equipment of similar quality in comparable quantities is available from a foreign producer. It has come to be one of the more questionable aspects of the way in which the Commerce Department has run the licensing program since 1969. For one thing, a foreign availability determination rarely, if ever, considers price. Even though the Soviets can sometimes obtain a comparable (although often less sophisticated) item from a foreign producer, it is often more expensive and therefore may represent a problem for the Soviets. Furthermore, there has rarely been a coordinated government effort to negotiate away foreign availability. Lastly, U.S. eagerness to trade since 1972 has made other countries disregard controls because they conclude that we are not serious. The United States, for instance, has requested the greatest number of exceptions to the COCOM embargo since the mid-1970s, usually for computer equipment. In reality, the United States has been the major source of foreign availability, making this an extremely convoluted and suspicious criterion on which to decide national security questions.

How important is this? The majority of Soviet imports from the West are often said to be nontechnology-intensive, but the 20 percent of imports that do consist of high technology have been system-

51. *Ibid.*, p. 6.
52. *Ibid.*, p. 71.

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atically diverted to strategic military purposes. During detente, roughly the period 1969–1979 (ending with the invasion of Afghanistan), the Soviet Union built up its strategic forces to an extent that cannot be viewed solely as defensive. In that decade, Soviet investment in strategic forces alone totalled $104 billion more than in the United States.[53] Soviet MIRVs (multiple-independently targeted reentry vehicles) can be far more precisely targeted because of transfusions of U.S. and West European microelectronic technology over the course of the decade. The development of wide-bodied jet aircraft technology has given the Soviets the ability to deploy air-launched cruise missiles and to transport large numbers of troops and huge amounts of material for long distances. The wide-bodied Soviet IL-86 transport, for instance, bears strong resemblance to the Boeing 747, although it is not identical. Another plane, the IL-76 was "used as the platform for a new Soviet AWACS (Airborne Warning and Control System), and...is similar in many ways to the U.S. AWACS."[54]

The Bryant Chucking Grinder precision ball bearing grinder case is often cited because of the fact that the Soviets kept trying for eleven years, through the decade of the 1960s, to obtain the U.S. technology. In 1972, a license was granted for the export of 164 Centalign-B precision ball bearing grinding machines to the Soviet Union, a determination made on the basis of foreign availability (even though the Soviets had not taken advantage of this availability for many years).[55] Coming shortly after President Nixon's return from Moscow, the decision overturned a recommendation four months earlier for denial of the license.[56] The machines are capable of grinding ball bearings to a twenty-five millionth of an inch, thereby reducing the friction of the moving parts. They have contributed to various Soviet military programs and may have been used to improve the guidance mechanisms of Soviet MIRV thermonuclear warheads.[57] The ability to change

53. Senator Jackson, Henry M. "The Age of Detente," *Congressional Record*, July 8, 1979, p. S.9791.

54. "Soviet Acquisition of Western Technology," *op. cit.*, p. 8.

55. For a detailed expose of this case, see: "Export of Ball-Bearing Machines to Russia," Hearings before U.S. Senate Judiciary Subcommittee to Investigate the Administration of the Internal Security Act, January 24, 1960 and February 24, 1961.

56. "Technology Transfer to the Soviet Bloc," *op. cit.*, p. 71.

57. Senator Jackson, Henry, M. "Technology Transfer Policy—The High Stakes," *Congressional Record*, February 11, 1982.

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direction is what gives a missile incredible on-target accuracy. Using the "cold-launch" technique, the Soviets have a better than 50 percent chance of destroying a U.S. Minuteman silo with each warhead of the SS-18, which is an intercontinental ballistic missile (ICBM) twice the size of the U.S. MX missile.[58] This breakthrough helped undermine the delicate basis for the SALT II talks on finding a balance for U.S. and Soviet strategic forces.

In addition to missile technology, the U.S. intelligence community has charged that a Sperry Corporation Univac computer system, installed in a Soviet synthetic rubber research lab, has been diverted for upgrading the Backfire bomber, at the nearby Tupolev aircraft factory.[59] Another especially valuable strategic capability was conveyed in the form of an enroute air traffic control system at Vnukovo Airport outside Moscow. The case involved the 1977 export of a system containing U.S.-origin goods, for which U.S. government approval must be obtained by the foreign exporter. The U.S. equipment included computer peripherals, core memory modules, and an unusually large number of microprocessors and integrated circuits. The system is an exceedingly complex array of primary and secondary radar devices, able to detect airborne objects within a wide radius, without the aid of a radio signal. An "enroute" system can also compute how fast the object is going and where it will be several minutes after spotted. Such complex equipment has obvious military potential, and can probably be applied to more than self-defense.[60]

Over the years, the United States and Western Europe have contributed to the Soviet Pacific Naval Fleet, and antisubmarine, antiaircraft, and antitank systems.[61] In other words, the West has enhanced Soviet capability a) to make its borders and airspace impenetrable, b) to neutralize Western weapons systems, and c) to generate new offensive systems of its own.

The Soviets Catch Up

The foregoing examples of instances in which the United States has transferred exceedingly sensitive strategic capabilities to the Soviet Union during the past ten years are but a tiny sampling of

58. *Soviet Military Power*, *op. cit.*, p. 56.
59. *Eastern Europe Report*, Business International, June 27, 1975, p. 182; May 31, 1974, p. 173.
60. "Transfer of Technology to the Soviet Bloc," *op. cit.*, p. 72.
61. "Soviet Acquisition of Western Technology," *op. cit.*, pp. 8–11.

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the billions of dollars worth of high technology transfers that have been applied to Soviet military pursuits.

These transfers would lose some of their strategic significance if the West were able to preserve its vital lead-time in discovering and applying military-related technologies. Unfortunately, there is conclusive evidence that the technology gap is narrowing, due in part to technology transfers from the West and the greater rate of military spending in the Soviet Union. The Soviets now have superiority over the United States in at least two dozen categories of weaponry and military technology, and we are running out of time in which to redress the balance. In microelectronics and computers, for instance (an important area of Soviet concentration), the U.S. lead dropped from 10 to 12 years to 2 to 7 years during the 1970s. The U.S. Defense Department has said that "without the transfusion of U.S. technological techniques, Soviet capabilities almost certainly would have remained at the 10-12 year gap of the 1965 era."[62]

Indeed, according to defense experts, the U.S.S.R. has seized the technological lead from the United States in several military-related areas, including: (1) titanium fabrication; (2) ABM battle management; (3) ICBM "cold launch" capability; (4) command, control, and communications countermeasures and intelligence; (5) antiship missiles; (6) armored battle vehicles; (7) biological warfare; and (8) mobile ballistic missiles.[63]

The Soviets' military R&D and weapons-testing efforts are continuing at a breakneck pace. Some 200 weapon systems are being advanced into production each decade. This rate of development increased weapons manufacturing capacity by 80 percent during the 1960s and 1970s.[64] It would probably be politically impossible for the West to emulate such spending in the military sector, implying that some other means will be required to maintain the essential balance of military power if Soviet military spending is maintained. Another way to partially offset the growing Soviet military advantage is to cut the technological lifelines leading straight to the military, at least during the years in which the West will be the most vulnerable. From a balance-of-power perspective, military advances being made by the U.S.S.R. can be used to back up the use of the debt weapon (described above), and of

62. *Soviet Military Power*. U.S. Department of Defense, July 1981, p. 75.
63. *Ibid.*, pp. 74-79.
64. "Soviet Acquisition of Western Technology," *op. cit.*

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economic warfare, (i.e. securing control over major critical resource supplies in the world). Taken together, the financial, military, and energy power being accumulated over the West represent a real and substantial advantage in gaining political influence in dependent countries.

We must ask ourselves what those policies were that led the West into a situation in which: (1) the Soviet bloc has amassed a perhaps unpayable debt liability of almost $90 billion; (2) Soviet military capability has reached parity with the United States and may shortly surpass that of the United States and its allies; and (3) contracts have been signed for a natural gas pipeline from the U.S.S.R. to Western Europe that threatens the energy security of Western Europe and could ultimately undermine the political will of the NATO alliance. To a considerable extent, the above conditions resulted from the American policy of detente toward the Soviet bloc, roughly during the period 1969–1979.

Trading on Goodwill

The U.S. policy to expand government-backed trade with the communist countries was formulated in the mid-1960s, with strong encouragement from the business and banking sectors. The business rationale for loosening trade controls and for investing substantial amounts in the Eastern economies has now dominated policy-making in both the U.S. Congress and the Executive Branch for almost twenty years. The major rationale for increasing economic contact in the 1960s was that the Europeans were exporting far more than the United States to the East, and that there was a potential market for the U.S. if it would only make the necessary legislative changes to take advantage of it.

European willingness to trade with the Soviet bloc has always provided a rationale for U.S. participation in such trade. Nevertheless, it should not be forgotten that during the 1970s many U.S. corporations established subsidiaries in Europe and entered into joint ventures, licensing arrangements and other forms of cooperation with Europeans, partially in order to take advantage of Eastern markets. In this way, U.S. technology was able to be shipped to the Soviets under less stringent European control policies. The use of "rules of origin" concepts (often used at business behest to protect patent rights) may be used in such instances to control extraterritorially the shipment of U.S.-origin goods and technology to the Soviet Union from foreign ports. Nevertheless, the use of such controls has been compromised by split policy

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goals. The U.S. Department of Commerce is entrusted with the mandate both to promote exports to the Soviet bloc and to protect U.S. security through export controls. Over time and under illusive hopes for detente, these goals have proven to be almost mutually exclusive. Moreover, as recession continues in the West and U.S. trade competitiveness becomes more associated with high technology industries, there is even greater pressure from companies in these industries for Commerce approval to export those items that are most militarily-sensitive to the U.S.S.R. and to utilize foreign subsidiaries if necessary.

In early 1964, the Senate Foreign Relations Committee staff compiled a report on the views of businessmen, bankers, and academic experts on East-West trade policy in the United States.[65] These hearings played a key role in subsequent policy formulation and (following these investigations) the Senate Foreign Relations Committee assumed increasing influence over the policy. In December 1964, President Johnson made his seminal statement saying that the United States wished to "build new bridges of trade and ideas, of understanding and humanitarian aid to the countries of Eastern Europe."[66] Consequently, a number of favorable studies on East-West trade were written. One specially appointed committee on East-West trade (the Miller Committee) submitted a report to President Johnson justifying trade expansion for both political and economic reasons. The committee was composed primarily of top-level corporate executives and members of the banking community.[67] In his 1966 State of the Union message, President Johnson urged Congress to amend the Export Control Act to facilitate expanded trade with the Eastern bloc. The stage having been set, in May 1966, Secretary of State Rusk sent the administration's proposed East-West Trade Relations Act of 1966 to Congress. Secretary Rusk described the administration's views and goals:

65. See: Hearings on East-West Trade before the Senate Committee on Foreign Relations, 88th Congress, 2nd Sess., (1964); Staff of the Senate Foreign Relations Committee, 89th Cong., 1st Sess., *East West Trade, A Compilation of Views of Businessmen, Bankers, and Academic Experts*, (Comm. print 1964).

66. Remarks at Georgetown University, Washington, D.C., December 3, 1964, in Public Papers of the Presidents, Lyndon B. Johnson, 1632 and 1634, (1965).

67. U.S. Department of State, Report to the President of the Special Committee on U.S. Trade Relations With East European Countries and the Soviet Union (1965).

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> We cannot expect trade alone to change the basic nature of the Communist system in any Eastern European country nor to settle fundamental differences between us. We can, however, expect that the many close relationships normally growing out of trade will provide opportunities for influencing the development of their societies toward more internal freedom and peaceful relations with the free world.[68]

Although this act was never passed, Congress substantially increased its interest in fostering trade relations with the Eastern bloc. Even the 1968 Soviet invasion of Czechoslovakia barely made a dent in efforts to reverse the "Cold War" economic and defense policies of the 1950s by opening the doors of investment in communist nations. In 1969, the Export Administration Act was passed to amend and liberalize the Export Control Act of 1949.[69] The 1969 act, under the jurisdiction of the House and Senate Banking Committees (but subject to the oversight of the House Foreign Affairs Committee and the Senate Foreign Relations Committee), has been the subject of a number of liberalizing amendments as it has come up for extension every three years. The most liberal version, enacted in 1979, was limited solely by a few tough measures introduced by Senators Jackson and Moynihan, both Democrats popularly regarded as liberal on domestic matters and conservative in the realms of defense and foreign affairs.

Between 1966 and 1979, therefore, Congress (and, in particular, the House Foreign Affairs and the Senate Foreign Relations Committees) involved itself more and more in East-West economic matters. Indeed, it may be argued that Congress assumed the lead role in the formulation of East-West trade policy. It thus became the prime target for interested groups as they attempted to influence this policy.

The Detente Lobby

Many groups lobby Congress on East-West trade matters. Business groups tend to dominate the debate because they devote

68. Letter from Secretary of State Dean Rusk to House Speaker John W. McCormack and President of the Senate Vice President Hubert H. Humphrey, May 11, 1966, in 112 *Congressional Record*, 10779, 10780, May 24, 1966.

69. See: Hearings before the House Subcommittee on International Trade, Committee on Banking and Currency on H.R. 4293, A Bill to Extend and Amend the Export Control Act of 1949, May, June, July 1969.

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more resources to the task and are more cohesive as a group. In somewhat curious association are these political theorists who predict the reduction of international tensions on the basis of the "convergence" of the Western and the Soviet systems. (It goes beyond the scope of this report to speculate on the likelihood of the Soviets ameliorating their tyranny or the United States repealing the Bill of Rights.) If the voices favoring expanded East-West trade have been loud and forceful, those counseling restraint have been disjointed, even muted. For example, when trade was proclaimed as a constructive approach to dealing with the communist world, there were substantial objections from groups such as the Young Americans for Freedom (YAF) and the Mothers' Crusade for Victory over Communism.[70] These groups, however, had at best limited impact and were, in the main, hardly influential.

Of perhaps greater significance was the attitude of organized labor. With only a few exceptions, America's labor unions have viewed the expansion of American trade with the Eastern bloc with disfavor. They have exhibited few, if any, of the attitudes popular among internationally-minded businessmen that international trade is a certain prelude to international amity and understanding. In large part, this stems from the traditional enmity of organized labor in America for totalitarian governments. While one might expect the AFL-CIO to sympathize with liberal trade views, it has consistently opposed the export of goods and technology to the centrally-planned economies which use cheap state-controlled labor to compete in the world marketplace.

American corporations have been particularly eager (for financial reasons) to promote trade with the U.S.S.R. and its allies. As a consequence, they, and the government agencies that guard their interests (notably various components of the Departments of Commerce and State), are eager to gain influence over the policy-making process to whatever extent feasible. For example, under the aegis of President Nixon's detente policy (initiated in 1972), advisory committees composed of representatives of American businessmen have been established to advise the government on what types and levels of technology ought to be controlled for national security purposes. This idea was suggested early on by E. Douglas Kenna, then president of the National Association of

70. See: Harvard Business Review "Businessmen Appraise East-West Trade," Jan-Feb. 1966, p. 6 for a discussion of the public opinion problem connected with East-West trade.

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Manufacturers.[71] It should be noted that while the motives of advisory board members may be completely honorable, they nonetheless have a responsibility to their boards of directors and stockholders to maximize profits. Thus, it is not inconceivable that advisory board members might, quite innocently, overlook certain strategic implications of individual exchanges unfavorable to the West, especially if the exchange in question was one that might improve the financial situation of their members' corporations.

Business groups are careful to build a positive case in support of their goals and interests. They argue that the United States has much to gain through trade expansion. They publish data showing numbers of jobs created and profits generated by trade with the Eastern bloc. In dealing with Congress, these economic desiderata are often defined in terms of individual Members' districts. These arguments are especially forceful, for trade is an engine of growth and economic progress in the West. Such an approach is without doubt particularly effective on Capitol Hill.

A number of groups have come into existence over the past decade or so whose goals have included the expansion of East-West trade. The East-West Trade Council (established in 1972 and suspended in 1981) has focused specifically on East-West trade developments and published newsletters informing businessmen of opportunities in such trade. Several larger groups (*e.g.*, the Committee on Economic Development, the Emergency Committee for American Exports, the National Association of Manufacturers, the U.S. Chamber of Commerce, the Business Roundtable) support East-West trade as an element of their overall liberal position on international trade issues.

The international activities of these latter groups are largely a function of their multinational corporation members. Extending the principles of detente, these groups have espoused a complex internationalist ideology in support of their economic arguments. Ben Wattenberg and Richard Whelan have described this world view in a recent book entitled *The Wealth Weapon*,[72] which is based on extensive interviews with multinational corporate executives. Their efforts suggest that the multinationals (in keeping with a theme popular among international traders since at least the late

71. Kenna, E. Douglas, Joint Economic Committee, Hearings, *Soviet Economic Outlook*, 93rd Congress, 1st Sess., July, 1973, p. 19.

72. Ben Wattenberg and Richard Whelan, *The Wealth Weapon* (New Brunswick: Transaction Books, 1980), pp. 17-21.

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nineteenth century), strive for a single world marketplace in which greater stability and world harmony will result from greater world prosperity (the latter having been facilitated by increased world trade). Multinational corporate executives view themselves as agents of change who shall inaugurate this hitherto unknown state of happiness—one that has eluded conventional politicians and diplomats through more conventional domestic and international political fora. These executives believe that the establishment of vested economic interests based on international trading agreements will foster an interdependent world. This, in turn, will give governments reason to avoid resort to force in the settlement of international disagreements. Such a theory has not so much overlooked history, as it has mistakenly oversimplified it.

Beyond those groups specifically dedicated to open international trade as a vehicle for world peace, there are those which also support the more specific international business goals of many American corporations. Prominent among these is the American Committee on East-West Accord (ACEWA). ACEWA was founded in 1974 in the belief that "the security of the United States and that of our allies is best served by reducing tensions between East and West, and in particular between the United States and the Soviet Union to avert thermonuclear war."[73] Its membership (totaling 291) is drawn from a wide variety of professions (including university professors, ecclesiastics, artists of various types, business executives, doctors, lawyers, accountants, retired military personnel, and the like). Politically, their views, while universally internationalist, nonetheless extend across a range from the liberalism of economist John Kenneth Galbraith to the defense-oriented conservatism of Admiral Noel Gaylor, USN (Ret.), former Commander in Chief, Pacific forces (CINCPAC), and former Director, the National Security Agency. Of its membership, roughly eighty are business executives or lawyers whose activities foster business interests. Only four are associated with labor unions. (The four labor-associated members are affiliated with the United Auto Workers and the Communications Workers of America). It is perhaps telling that one of the members of ACEWA's Board of Directors is Stephen Schlossberg, Washington Counsel for the UAW. His prominence in the organization may serve to disguise the dearth of labor union-affiliated individuals. Con-

73. "American Committee on East-West Accord, ACEWA, Washington, March, 1982, p. 3.

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versely, however, his board membership may simply be a coincidence. There is no ACEWA membership involving officials of the AFL-CIO, the International Longshoreman's Association, or the Teamsters, although all three of these organizations have favored international trade, at least insofar as it occurs between noncommunist countries.

ACEWA's business-oriented membership is heavily weighted with those executives whose corporations are involved in trade with the Eastern bloc. For example, of the 28 private U.S. corporations who in December 1981 maintained offices in the U.S.S.R., eight (Armco International, Chilewich Corporation, Control Data Corporation, Dow Chemical Company, Dresser Industries, IBM, Occidental Petroleum, Satra Corporation) have senior executives who are members of ACEWA. Given the enormous number of U.S. corporations, this appears to be a rather striking coincidence. Likewise, of the 58 American corporations which as of March 1978 had concluded science and technical cooperation agreements with the Soviet State Committee for Science and Technology, eleven had executives who were members of ACEWA (Armco Steel Corporation, Berger International, Burroughs Corporation, Coca-Cola Company, Control Data Corporation, Dow Chemical Company, Dresser Industries, ITT, Lockheed Aircraft Corporation, Occidental Petroleum, and Pepsico, Incorporated). It thus appears that whatever the professed goals of ACEWA and, for that matter, the majority of its individual members, many of its business-oriented members may have viewed it as a vehicle for the improvement of their respective corporations' financial positions.

These corporations have varying impacts on the West's strategic position. It is arguable that Coca-Cola, in its ongoing struggle with Pepsi, is unlikely to undermine the national security. Of greater import, however, is the issue of American computers (and their allied high technology). Major computer corporations (*e.g.*, IBM, Burroughs, Control Data Corporation/CDC) have a vested interest in selling as much of their technology as fast as they can. Since the technology itself has a very short lifespan, corporate developers must extract as much profit as possible in a very short period before their products are overtaken by new developments.

This has significant implications for American strategic interests. Although sales of high technology to the U.S.S.R. may have an immediate favorable financial impact on specific American corporations, should that technology be diverted to military use, the ultimate impact of its transfer to the U.S.S.R. will be to the detriment

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of the United States and the West. Many Western defense analysts are certain that the Soviets will extract any available military utility from any technology or equipment that they may acquire from Western sources.

The proposed construction of the Siberian pipeline presents a microcosm of these conflicting approaches to foreign policy. The corporations of both Europe and the United States have supported the pipeline, predictably on the basis of economic arguments and the underlying view that energy interdependence with the Soviet Union can only be an unmitigated good for the West. It will: (1) provide much needed fuel to Western Europe; (2) provide a number of industrial jobs during a period of economic depression; and (3) encourage a measure of economic integration between the economies of East and West. Despite these political and economic benefits expected to be derived from construction of the pipeline, the United States has forbidden American corporations and their foreign subsidiaries from participating in construction on the simple grounds that greater West European dependence on Soviet energy sources may all too easily be translated into submission to Soviet coercion during periods of international tension and also may contribute significantly to a further Soviet military buildup with hard currency earnings from such deliveries.

Opposing the administration's arguments, such groups as the National Association of Manufacturers and the U.S. Chamber of Commerce have deplored the President's "sanctions." They have testified before Congress that the latter are unenforceable in practical terms, if only because of the availability of construction equipment and components from foreign sources. (The validity of this argument, however, is clouded by the issue of U.S. subsidiaries and licensees being the sources of these "foreign" components.) They also argue that in imposing such restrictions the United States is undermining traditional business relationships with its Western European allies. In addition, they question the effectiveness of such limitations in changing Soviet behavior in such areas as Afghanistan and Poland.

What's Good For The U.S.A.

The United States must evaluate East-West trade policy in terms of national security. Having established this in principle, an office comparable in function, but smaller than the United States Trade Representative, could be formed, located in the White House

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where it can provide coordination between the Departments of Defense, Commerce, State and the National Security Council, and staffed by experts who understand the technical aspects of trade and finance, but also grasp the wider strategic implications of transferring specific items to the U.S.S.R. and its allies. The policy role such an office would play in East-West affairs would be that of coordinator, evaluator, and negotiator. It would negotiate for the United States government on control matters with our allies and other governments, from a national security point of view. It would explain the national security significance of trade with the Comecon bloc to Congress and interest groups. Had such an office existed two years ago, much of the confusion, consternation, and disinformation that has befogged the Siberian pipeline issue and the Administration's position could have been avoided.

The seriousness of the Siberian pipeline and Eastern European debt issues today for the United States and its allies requires steadfast government policy that reasserts U.S. leadership in East-West affairs. The Reagan administration should not relinquish the initiative it has claimed so far on these issues. The political and economic cohesion of the West demands that current export controls on U.S. oil and gas pipeline equipment and technology destined for the U.S.S.R.'s use be maintained and others be made to understand their significance, regardless of the situation in Poland. Eastern Europe's debt leverage over Western banks and governments must be neutralized. At the very least, this calls for commercial banks and government lending institutions to cover their Polish debts with loss reserves. The limbo in which governments and banks now find themselves, in which debts are neither rescheduled nor transferred to the liability side of the accounting ledger, is intolerable.

Ultimately, these are not business matters, but political and military problems. At issue is not the question of whether Caterpillar or IBM or Control Data should make money. They should. It is whether they and other international institutions should be encumbered in their pursuit of profits by security considerations. If the national security of the United States and the West as a whole is considered of paramount importance, certain American business interests may have to be subordinated to the public weal.

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Over There

Scotching the PLO

At first it seemed a war much like Israel's past wars: the sudden midnight call-up of reserve units, the hurried goodbyes, the lines of trucks and tanks rumbling north, and then, on the home front, the anxious hourly vigils by the radio and television. In the early morning hours of Sunday, June sixth, the Israel Defense Forces (IDF) thrust deep into Lebanon. Prime Minister Menachem Begin informed Washington that the aim of Operation Peace For Galilee was to push units of the Palestinian Liberation Organization (PLO) "forty kilometers to the north" in order to free the residents of Israel's Galilee region from "the permanent threat to their lives." A Government statement declared that the Syrian army (stationed in various parts of Lebanon since 1976) would not be attacked, unless it attacked first. Officials in Jerusalem envisaged a seventy-two hour operation. The national consensus during the first few days of the war seemed to be strong and united: it was clear that an end had to be put to the terrorist shelling that had plagued the north for over a year. Yet by Tuesday, the third day of the war, something else was becoming clear: Israel was advancing beyond its stated aim, and things were not going to turn out the way they had seemed at first.

By Tuesday, Israeli forces were at least fifty-five kilometers up the Lebanese coast and were in effective control of roughly 1,000 square kilometers of southern Lebanon, including the coastal cities of Tyre and Sidon and the massive terrorist camp at Nabitiyeh. Amidst conflicting reports of Syrian involvement, it appeared as if another whirlwind Israeli operation would shortly draw to a close. In the Knesset (parliament), the opposition Labor Alignment—whose leaders the previous night had expressed cautious criticism of Defense Minister Ariel Sharon's briefings on the conflict—voted against a no-confidence motion presented by the communist Democratic Front. The opposition leaders, in a rare demonstration of unity, declared that "this is not the time to square accounts about the past." But the first indications of parliamentary discontent surfaced when six Mapam members (the Labor Alignment's left-of-center partner in the opposition) and

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two other Alignment members requested and were granted permission to abstain from the voting. Prime Minister Begin, summing up two hours of Knesset debate on the motion, repeated the Government's aim of a forty-kilometer *cordon sanitaire* in southern Lebanon and again called on Syria to stay out of the fighting. Yet while Mr. Begin avoided a verbal provocation of the Syrians, the situation on the ground was shaping up as a challenge to Damascus.

By the fourth day, events in the field had escalated the conflict. Along the coast and in the central region, Israeli forces were pushing toward Beirut and toward the highway linking the Lebanese capital to Damascus. In the east, clashes with the Syrians erupted into a huge air battle over the Bek'a Valley. The Bek'a is viewed by Syria as the gateway to Damascus (only thirty kilometers to the east) and is thus of considerable strategic importance.

Although Government spokesmen in Jerusalem continued to describe the conflict as an "operation" or an "action," it was obvious by now that Israel was engaged in full-scale warfare with Syria. In Israel, doubts began to arise as to whether the reality of this new, second phase of the war was created by the inexorable multiplication of events in the field, or whether—as some were beginning to suggest—events and information were being manipulated by Defense Minister Sharon in order to expand the conflict. Because the fourth day proved to be a turning point, both in the battle and in the Israeli public's attitude toward it, a closer look may prove enlightening.

The two key factors on the battle front were Syria and its Soviet-supplied Surface to Air Missile (SAM) anti-aircraft batteries. Various versions of the SAM have been a factor in Middle East fighting since 1970. In the 1973 Yom Kippur War, Israel suffered heavy losses to SAMs based near the Suez Canal. During the 1981 battle between Syrians and Christians for the Lebanese Christian city of Zahle, Syria brought a number of advanced SAMs over the border and positioned them in the Bek'a. Prime Minister Begin termed this an intolerable situation and repeatedly declared that the SAMs would be "dealt with." But the SAMs remained.

On day four of the current conflict, as special U.S. envoy Phillip Habib headed for Damascus with an American cease-fire call, Syrian President Hafez Assad made his move. Interpreting the cease-fire call (and Mr. Begin's repeated pleas for Syria to stay out of the fighting) as a sign that America would restrain Israel,

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he tripled the number of missile batteries in the Bek'a. Under cover of the fresh anti-aircraft batteries, Syria increased its air strikes against IDF columns advancing in Lebanon. Charging that Syria had "deceived" both Israel and the United States, the Israeli Cabinet gave the green light for an air strike against the missiles. At 2:00 p.m. the air force went into action, knocking out all the SAMs in the Bek'a and downing an estimated twenty-five Syrian MIGs. All Israeli planes returned safely to base.

Day four also saw the emergence of the first signs of stress in Israel's wall of national support for the war. The IDF was far beyond the forty-kilometer mark. Would there now be a major war with Syria? Where would the advance end? The unanswered questions were unsettling. Further, due in part to the army spokesman's failure to provide concrete information, rumors were circulating about heavy Israeli and civilian casualties. It seems that Israel's information services were an early casualty of the war, and the increasingly frustrated public turned to outside sources for news, which, if not openly hostile to the Jewish state (such as reports from nearby Arab lands), were based more on speculation than fact (such as many reports in the Western media).

Speculation also began to increase about Defense Minister Sharon's role. His reputation as a brilliant, though impetuous and occasionally brutal, soldier led many to suspect he was itching for a wider battle. He also had made no secret of his belief that Syria should be forcefully expelled from Lebanon and that the Hashemite Kingdom of Jordan would well serve as the Palestinian State.

All these factors—fear of war with Syria, doubts about Mr. Sharon, lack of information from the army spokesman's office, distorted reporting from the world media, rumors of heavy casualties, and rumblings of discontent from the Israeli left—sent tremors through the national psyche. In coming weeks these tremors would crack the public consensus and pitch the debate to an intensity previously unknown during a military campaign.

Bitter fighting continued through Thursday and Friday, the fifth and sixth days of the war, until the IDF were poised at the gates of Beirut. At noon Friday, Israel declared a cease-fire with Syria. It seemed, for a moment, for a day perhaps, that Israel had fought and won another Six-Day War. On Saturday the cease-fire was extended to terrorist forces in Beirut, but broke down into artillery duels less than three hours after it began. The danger of a full-scale war with Syria was, for the moment, over. Yet the fight-

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ing in Lebanon continued—albeit on a smaller scale—and new battles were taking shape in Beirut, in the world diplomatic arena, and in Israel itself.

The Siege of Beirut

The three weeks following the initial cease-fire saw a gradual consolidation of Israeli positions in and around Beirut. Clashes with PLO and Syrian forces flared, died, and flared again, as Israel battled for and won control of the Beirut-Damascus Highway; skirmished with Syrian troops in central and eastern Lebanon; seized control of Beirut's international airport; imposed a sea blockade; deployed troops around the southwestern part of the city and linked up with Christian Phalange forces in the northeast—cutting off an estimated six to eight thousand PLO (and some Syrian) fighters in West Beirut.

The aims of the war had changed. Or perhaps the true aims had finally come to light. Government sources in Jerusalem now declared that Israel's main aims were to insure that the PLO never return "to the territory falling within a forty kilometer arc of Israel's northern borders," to secure an agreement that all foreign armies—PLO, Syrian, and Israeli—withdraw from Lebanese soil (unlikely, because of the Syrian attitude toward the Bek'a), and to seek the establishment of a strong central government in Beirut. In the diplomatic arena, intense efforts were under way to save the city.

Spearheaded by Phillip Habib, the protracted and convoluted negotiations were complicated by the need to secure new, interim cease-fires almost weekly. Further complicating the negotiations was the refusal on the part of most parties to talk to each other: there is a history of animosity and mistrust between Lebanon's rival power factions, and the United States follows a long-standing policy of no direct negotiations with the PLO. Mr. Habib had thus been dealing with the PLO through Moslem intermediaries. It was seen as a cause for optimism when leftist Druse leader Walid Jumblatt agreed to sit at the same table with rightist Christian Phalange leader Bashir Gemayel (under the auspices of the newly-formed National Salvation Committee). The two Lebanese leaders had not met face to face since the 1975 civil war began to rip Lebanon apart.

Mr. Habib, Mr. Jumblatt (leader of a coalition which includes the PLO), Yasser Arafat, Lebanese Prime Minister Shafik Waz-

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zan, respected elder statesman and former Prime Minister Sa'eb Salam, and Mr. Gemayel, the Christian leader, were the key internal figures in the diplomatic drama that took place in the city. Mr. Wazzan and Mr. Salam primarily served as intermediaries between Mr. Arafat, the Americans (and through them the Israelis), the leftist Moslems, and the Christians. Ambassador Habib was at the eye of this storm, although it was by no means calm there. Given the historic antagonism between Moslem and Christian, it is not certain whether these leaders will be able to overcome their differences, or whether they will be able to keep their followers in line. A further complication is that within the Gemayel and Jumblatt spheres of influence are smaller rings of intercommunal conflict, not to mention the numerous well-armed splinter groups on the scene. By mid-July, negotiations to evacuate the PLO and secure a stable government in Lebanon had made little progress.

In terms of the situation at that time, it was Yasser Arafat who seemed to hold the trump card if Beirut was to be spared a violent and costly battle. A master politician and longtime survivor in the jungle of Arab politics, he continually played his options off each other, declaring one day that he was willing to leave the city, and the next day that he would fight to the death. Yet behind the bluff and bluster, most of the negotiations were involved with face-saving; the key demands centered on an "honorable" evacuation and some form of protection and political representation for Palestinians remaining in Lebanon. Later, the demand for political representation was quietly dropped. And while Mr. Arafat was clearly playing for time, he knew all along that Israel's patience was not infinite. A final battle for West Beirut was always a distinct possibility.

The Syrian position had President Assad only nominally allied with Mr. Arafat's PLO. It is well known that Syria was unhappy with the independent Chairman Arafat, and would have liked to bring the PLO under tighter rein. Syria intervened strongly in the conflict only when its direct interests (the Bek'a Valley and control of the Beirut-Damascus Highway) were threatened. President Assad's July rejection of the plan to evacuate the trapped PLO fighters to Syria may simply have been a bargaining ploy to insure a Syrian presence in the Bek'a and gain massive funding from the Arab world, or it may have reflected an unwillingness on his part to inject another armed element into Syria's unstable domestic scene.

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The Home Front Wavers

As diplomats in Beirut searched for an end to the crisis against a background of mounting violence, the criticism in Israel also was rising. The central questions concerned the aims and execution of the war. What happened to the originally stated aim of a forty-kilometer *cordon sanitaire*? Would there now be an assault on the Lebanese capital? The brilliant, brief "operation" was turning into Israel's longest war.

Labor Alignment leaders, highly critical of Mr. Sharon, warned against an assault on Beirut, while at the same time citing the need for national unity. Party leader Shimon Peres said that entering an Arab capital would pose a "dreadful risk," both in terms of casualties and political consequences. Indeed, most criticism of the war centered around the argument that it had moved beyond a strictly defensive operation (the forty-kilometer zone) into a dangerous and uncertain political undertaking (the expulsion of the PLO nerve center from Beirut, an end to Syrian presence in Lebanon, and the creation of a strong central government there) backed by military might. This, the critics argued, was a corruption of the use of the Israel Defense Forces. It was here, when the war took on political overtones, that the national consensus began to crack.

While party leaders Shimon Peres and Yitzhak Rabin were fairly circumspect in their criticism, others in the Labor Alignment did not pull their punches. There were angry exchanges in the Knesset Foreign Affairs and Defense Committee, where Mr. Sharon was accused of withholding information, misleading the Knesset, "rolling the war aims further and further along as the troops advanced" (Mapam leader Victor Shemtov), and not giving due weight to the extent of Israeli casualties. Most (though certainly not all) of the charges came from the Labor Alignment's leftist-dove elements. A split in the Alignment, with the Mapam and perhaps a few Labor doves going their own way, can be expected to occur within the next few months.

Defense Minister Sharon also came under pressure from his own party. High-ranking sources revealed that the cabinet did not fully discuss all the aims of the war—and his control of those aims—until the third day of the conflict, and only then asserted "proper control" over events. "We suddenly realized," one minister told *The Jerusalem Post*, "that he [Sharon] was trying to maneuver us along with his own preconceived path while keeping the

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real truth from us.'' An informal alliance of cabinet ''watchdogs'' agreed to keep an eye on the defense minister. This alliance would later urge restraint on military actions in West Beirut.

But for the first two months of the war, the cabinet was divided between those who supported Mr. Sharon and those who urged greater restraint by requiring prior cabinet approval of each and every military move. The prime minister continued to support Mr. Sharon's broad mandate for military action until the issue exploded at the August 12 aerial bombardment of West Beirut. The cabinet, shocked by the defense minister's move when Mr. Habib was so close to success, closed ranks and was virtually unanimous in its sharp rebuke of Mr. Sharon, whose exclusive authority to order the air force into action over Lebanon was then revoked.

The antiwar protest reached its height on July 3 when a Peace Now demonstration in Tel Aviv drew an estimated 75,000 people. Peace Now (formed several years after the Yom Kippur War) called for an immediate withdrawal from Beirut, for immediate negotiations with the Palestinians, and for a debate on the war and the correct use of the IDF. In fact, the debate had already begun. ''When the Army called me, I went and fought,'' said one soldier, a Peace Now activist, ''and now I'm home, out of uniform, and I have to protest the Government's actions. The first, to fight, is my duty; the second, to protest, is my duty and my right. If I can't exercise my rights, what am I fighting for?''

But many were demanding that the protests be silenced. The Likud Government, stung by the criticism, hit back hard. A counter demonstration in Tel Aviv drew an estimated 200,000 people. At that gathering, Interior Minister Yosef Burg charged Peace Now with prolonging the war by encouraging the terrorists. At a military graduation ceremony, Mr. Sharon declared that ''the Alignment is hampering us in our objective of destroying the military power of the PLO.'' The defense minister and others, both inside and out of government circles, argued that opposing the war—at a time when the PLO was cut off and Israel was engaged in a delicate, complicated game of psychological warfare—encouraged the terrorists to dig in and wait for world pressure to force an Israeli withdrawal. Thus, the argument went, opposition to the military option in West Beirut would actually have forced the Government into taking it. Many soldiers, recently returned from the fighting, expressed bitterness at the public debate, and

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most felt the antiwar faction was playing into the hand of the PLO. Polls showed that Mr. Begin and Mr. Sharon continued to command the majority of the public support.

One of the most immediate consequences of the war in Lebanon is that the Israeli legend of national consensus in time of conflict has taken a severe and possibly fatal beating, although it is true that this was not a battle for survival in the strict sense, and criticism arose only when the IDF moved beyond the forty-kilometer defensive rationale. Perhaps more serious are the questions of freedom of speech and assembly that lie behind the immediate issue of whether the Government's actions were right or wrong. For, amidst the great deal of sound and fury directed at the dissenters, a voice could be heard from the streets. It was not Prime Minister Begin's voice, nor was it a voice from Government. It was a voice of anger and confusion and pain, legitimate in its concerns (the safety of Israel, the safety of the troops, an end to terrorism) but willing to brook no compromise and sounding at times like the voice of intolerance, even of authoritarianism. It was the voice that shouted down the opposition in last year's elections and chanted "Begin, Begin, King of Israel," and to some degree it was the same voice (again legitimate in its concerns) that opposed the withdrawal from the Sinai Peninsula in accordance with the Camp David Treaty. It is a voice that seems to be gaining strength in Israel, and it is certainly a voice that will be heard when the Government returns to the key issue bedeviling Israel's peace, the question of Palestinian self-determination in the West Bank and Gaza. Israel, even in the best of times, is a clamorous argumentative democracy—that is its great strength and great weakness—and the nature of Israeli democracy will face its greatest test in coming years as it confronts the question of Palestinian rights. Then the shattered myth of national consensus, the final outcome in Beirut, the actions of the Government and the opposition, the voice of the streets, and the nightmare of Jewish history will return to haunt the nation.

By the end of the fourth week of the war, much of the publicly expressed opposition had been submerged because of Government and Labor pleas for a semblance of unity in the face of tough negotiations in Beirut. "We will wait," said one leading critic of the war, "we will wait until our sons come home—then we will fight." Faced with the possibility of endangering the troops in Lebanon, most felt they could not do otherwise.

Israel is still waiting for her sons to come home. By the seventh

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week of the war, the IDF were preparing to spend the winter in Lebanon, and negotiations in the capital continued to revolve around the questions of where the PLO would go, how it would get there, and who would supervise the disengagement and withdrawal of forces. Numerous ideas had arisen in the past weeks —including sending in the Sixth Fleet; sending in the French; sending in Kissinger; sending the PLO to Syria, Egypt, Iraq, Algeria, and Yemen. Saudi Arabia reportedly offered Syria $14 billion if it would accept the PLO—a hard cash offer which may help induce Syrian cooperation. (Col. Qaddhafi told Mr. Arafat that suicide was the nobler option.) But at that time all these ideas continued to swirl in the ill winds surrounding the negotiations. Although it is too early to assess the long-term consequences of Israel's action, an interim assessment is possible.

The most immediate result of Operation Peace For Galilee has been peace for Galilee, and the consequent reaffirmation of Israeli military prowess. By a combination of technological superiority, careful and extensive planning, highly trained personnel, and extraordinary intelligence efforts, Israel has issued a strong warning to its enemies and bought at least a few years of relative peace. Advanced American weaponry has been battle-proven superior to Russian-supplied arms; and NATO and the West will benefit from Israel's battlefield success. Western interests, in general, have been strengthened by the Israeli action: the Russians have lost influence with their Arab clients; the reach of international terrorism has been shortened; and the peace with Egypt has passed its toughest test.

The PLO's military power has been dealt a serious, though not yet mortal blow. It will never return to southern Lebanon. The PLO leadership and forces in West Beirut will now be dispersed through the Arab world. There probably will be a return to the acts of terror that characterized the early seventies. Yasser Arafat's hold over the extreme factions of the PLO (such as George Habash's Popular Front) will be weakened. The PLO will be rearmed and continues to maintain units in most Arab armies. The huge quantity of arms found in southern Lebanon raises serious questions about the depth of Soviet involvement in the PLO. The fact that the armament was much more than the PLO could possibly have used suggests that the weaponry was stockpiled for the use of Russian interests in other Middle East quarrels.

Politically, it remains to be seen whether Mr. Arafat will maintain his hold over the Palestinian struggle for self-determination.

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Broadcasting from bunkered West Beirut, he seems to be winning the game. An understated theme of the war in Lebanon has been the fight to destroy the PLO's grasp over the population of the West Bank and Gaza; the threat of PLO assassination still keeps Palestinian moderates from speaking out. If America holds firm in its refusal to recognize the PLO, the PLO reign of terror may be over. However, if Mr. Arafat emerges from West Beirut with a propaganda victory, then the PLO will continue to hold sway over the autonomy negotiations. As the war entered its third month, Israel followed a pattern of intense military strikes coupled with diplomatic pressure. This strategy was successful in driving the PLO from West Beirut, but it may have strengthened Mr. Arafat's influence with West Bank and Gazan Arabs. No Arab military force, Mr. Arafat has correctly noted, held out so long against the Israeli army as the PLO.

The Bitter Aftermath

In assessing the Arab world, we must avoid simplistic generalizations. While the Arabs continue to support the PLO with rhetoric and dollars, the fact remains that they did little to aid their military effort. This fact will not be lost on Chairman Arafat. The war in Lebanon may convince some Arab leaders that political action is the better recourse against Israel, and an effective pro-Western coalition could evolve around Egypt, Jordan, and Saudi Arabia. Of more serious concern, from the Arab point of view, are recent developments in the Iran-Iraq war. At present, the Ayatollah Khomeini's brand of militant fundamentalist Islam, clothed in revolutionary rhetoric, is viewed as the greater threat to Persian Gulf security. But any Western sympathy generated for radical Iraq is, from Israel's point of view, a dangerous development. Syria, isolated because of its alliance with Iran and faced with domestic turmoil, may welcome the opportunity to withdraw some troops from Lebanon, although it will continue to affirm its position as the leading "confrontation state" in the battle against the "Zionist enemy." Its pride stung by the quick Israeli victory, Syria may allow an increase in PLO raids originating from Syrian soil. If that happens, an Israeli response and thus future conflicts are inevitable.

Thus, the Middle East continues to be a tangled web of conflicting interests. The radical militant elements favoring confrontation with Israel have, for the moment, lost influence. Egypt, soon to complete its return to the Arab fold, will exert a great deal

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of pressure toward reviving the West Bank autonomy talks. Yet it should be noted that, since no Arab country except Egypt has expressed a willingness to live in peace with Israel, Israel has no choice but to maintain an aggressive pre-emptive posture toward the growth of Arab military power.

The prospect for a stable government in Lebanon is not bright. Christians and Moslems seem unable to put aside their differences, and Moslem leftist leader Jumblatt is reported to have told Shimon Peres that he feared the Gemayel Phalange (his ostensible partner in government) more than the PLO or Syrians, because of the years of hatred between the two factions. Israel's war in Lebanon may just be another phase in the civil war that has raged in that country since 1975. Even with the PLO gone, a deep residue of bitterness will remain amidst the Christian population, a bitterness that may take the form of violent reprisals against the remaining Palestinians and other Moslems. Israel and the international peace-keeping force will have to deal with the mutual hatred of the various factions. If coalition government proves impossible, Lebanon may be split into two mini-states—a solution that Syria, for one, opposes. In trying to arbitrate the Lebanese conflict, Israel may find itself in the Land of the Cedars for several years.

On September 23, Christian leader Bashir Gemayel will become Lebanon's next president. The Lebanese Parliament, which was to select a new president on August 14, postponed the election at the last moment following pressure from Moslem, Druse, and leftist deputies. Opposed to Bashir Gemayel's candidacy were Sa'eb Salam and Wallid Jumblat. On August 23, amidst rising tension and the reported assassination of a Shi'ia Moslem deputy, Mr. Gemayel was elected president on the second ballot, gaining the necessary two-thirds majority by just one vote. In the coming months, opposition to President Gemayel could spark another civil war.

Finally, the mood in Israel is one of resignation mixed with uncertainty and anger. There will be no quick withdrawal from Lebanon, the public appears resigned to that. What remains uncertain is whether the IDF will again be drawn into major fighting in Lebanon, this time along the eastern front with Syrian and PLO units lying in close proximity to Israeli lines. The anger, subdued at the moment, is directed at those elements who opposed the war in its early stages. Did the opposition in Israel encourage the PLO to sit it out in West Beirut? It is a question which may never be fully answered. The degree of resentment which—right or wrong

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—seems mainly directed at the Labor Alignment will be reflected in the upcoming Knesset elections, scheduled for November 1982 or June of 1983. Menachem Begin's Likud will probably be the big winner in those elections. At present, the imminent arrival of the Tehiya Party and its three Knesset seats into the Likud coalition will give Begin a comfortable parliamentary majority. But Tehiya's extremist positions (the party opposes the Camp David Accords and favors annexation of the West Bank and Gaza) will increase the political polarization of the country and hinder the autonomy negotiations.

At the moment, there is in Israel a great deal of wariness over rumors of a new American approach to the Palestinian problem. While grateful for the successful American role in resolving the West Beirut crisis, any departure from the Camp David framework will only serve to harden Israeli negotiation positions on the withdrawal of all foreign forces from Lebanon, and on the future of the West Bank. Thus the situation in Lebanon is now indirectly linked to the question of Palestinian autonomy, a question which will continue to trouble the security and conscience of Israel, a question whose resolution could pose a threat to the nature of Israeli democracy.

Micah Morrison

A Noise on the Right Side

The "jingo," as first characterized—he was not, of course, given a good character—at the end of the nineteenth century, was the patriot by proxy. It was he who cheered from the quayside, in the theatre, in Trafalgar Square. His passion for combat was the passion of the spectator. He was, according to J. A. Hobson in *The Psychology of Jingoism* (1901), a man of "low curiosity and indiscriminate receptivity." In his untutored enthusiasms, with the whiff that he brought with him of "the music-hall and the recreative public-house," of "democratic saturnalia," he constituted a threat to both the "inner life" and civil peace, not only of high-minded political rationalists such as Hobson, but of all responsible citizens.

The jingo was distinguishable not only from the true patriot but also from the French chauvinist. His provenance was English. He was first given a name, we have been told, by G. J. Holyoake in

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the *Daily News* of 13 March 1878. The jingoes were those who backed the action of Beaconsfield's Conservative government in ordering the Mediterranean fleet to the Dardanelles to deter the forces of the Russian Tsar as they advanced towards Constantinople after the surrender of Plevna. The "jingoes" marched in the capital and certain midland and northern cities with brass bands and torches and sang not only *Rule Britannia* but also

We don't want to fight, but, by jingo, if we do
We've got the ships, we've got the men,
We've got the money too.

The words are hardly bellicose. "They only maintained," wrote H. W. Wilson in the *National Review*, January 1899, "that, if war was necessary, England was ready for it." Such moral offense as may be taken derives primarily from the implication that the reluctant combatants will not be sacrificing their own lives for Constantinople, but those of others. The sentiments, however far they fall short of the highest patriotism, are neither inexplicable nor inauthentic. They were, inevitably, the assertions of a country which, because it was without land frontiers, exacted no universal military service from its citizens and relied for the defense of its worldwide interests, distant frontiers and bases, and the double island itself upon a small professional army and a large professional navy.

Expeditionary forces and ships imposed but a small blood tax; for the populace at large the duty of defense resolved itself into a money contribution. The men, the money, and the ships were instrumental: once they were mobilized and assembled the only active patriotism left to the "mere inhabitants" was cheering in appropriate places. Such activity was indeed functional: soldiers and sailors suddenly launched on a perilous venture needed above all to know that they had the country behind them. It was not an occasion for sober sides, for second thoughts and hand-wringing. It was a time for the country to think well of itself. It might be foolish, but there was nothing baleful or wicked about it.

The jingo's reaction was instinctive; his ideas were of the simplest constitution, but he was not without moral conviction. As that worthy Little Englander and antijingo J. L. Hammond once remarked, even the jingo could make a noise on the right side. In a notable essay in *For the File on Empire* (1968), A. P. Thornton has written that "most deeply rooted of all the imperial ideas that ever came out of England was the conviction, held by both the governors and the governed, that England had a role in the world: something especial to be, something particular to say, something unique

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to do." Such idealism was, of course, always heavily salted with a basic determination to defend both national territory and national interests, to resist, in Palmerston's reported words, "the habit of making concessions which is fatal to a nation's interest, tranquillity and honour." Active patriotism was therefore a means of girding for action, but it was just this communication of the simple idea of the *patria* to and by the undiscriminating ignorant many that so alarmed Little Englanders in particular, and Whiggish or superior people in general. For them, vulgar patriotism must always be something on the downward path likely to lead to a dangerous political style, a perilous statecraft, the breakdown of social control.

A Victorian Revival

Until the late Falklands war broke out, jingoism seemed safely stowed away in a remote past. The popular support for the Suez expedition in 1956 was invariably dismissed by the persisting liberal orthodoxy as an aberration not at all likely to be repeated in a Britain reconciled to a municipal fate in an interdependent world. The idea of a simple moral impulse entering into the conduct of Britain's policy in the world had become inconceivable to those wise politic men to whom she now confided her affairs. Had not her Foreign Secretary, Lord Carrington, in a lecture celebrating the bicentenary of the Foreign Office declared, only a week before the Galtieri junta launched the invasion of the Falklands, that "There's no point in being nostalgic. Gunboats often settled things in Victorian times. . . . Alas, gunboats won't do."

In fact, except for the tumult and the shouting, all the elements of a Victorian jingo response were to be present in the Falklands war: an initial reluctance to engage, the sudden emergence of a common conviction among rulers and ruled that something must be done, the launching of an improvised expedition into the distant unknown, prudential second thoughts on the long voyage, vicissitudes, hardships, triumph, and rejoicing. All of a sudden *The Times* was declaring that "The Navy as it steams south, has the nation behind it." Something no one thought still to be there had been let loose on a most incongruous issue, the seizure of some barren islands in the South Atlantic, repossessed by Britain some 150 years ago, benignly neglected by her ever since, now well outside her strategic interest, mere counters in a desultory high diplomacy beyond the popular ken.

Everyone was taken by surprise, not only the Foreign Office which paid immediately for its lack of vigilance and/or judgment

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with the resignation of three ministers including the Foreign Secretary himself, but also the political, bureaucratic, and military élites, the higher journalism, and the BBC, in fact most of Britain's distinguished and superior persons. For many of these the time was out of joint. *The Times* recovered quickly, but the *Guardian* and the *Observer* found themselves in a ludicrous crisis, contending in vain against folly, brute instincts, insistent symbols, and ancestral voices. The BBC had recourse to its own cultivated dispassion. It insisted that it neither needed nor gave lessons in patriotism.

The leading politicians of the opposition, both Labour and Social Democratic, and Liberal Alliance, were not at all averse to seeing the government caught napping but immediately, in the full tide of patriotism, could not do other than endorse the dispatch of the task force to redress a wrong committed by what they chose to label a "fascist" junta. Yet at heart most were unprepared to spend blood and treasure on such distant shores. Throughout the war, all the opposition parties were in difficulties, dutifully travelling to the wars yet unwilling to arrive. "Dallying," in the words of Conor Cruise O'Brien, "in the realm of the desirable but unattainable," they displayed, both before and after the failure of American mediation, an unwarranted faith in the capacity of the Secretary General of the United Nations to secure a negotiated settlement. Their talk was continually of "military proportionality," "magnanimity," "statesmanship"—all good words as such, but which, at particular times, might harm action.

After a brave beginning—he has in his time been saluted as a patriot—Mr. Michael Foot backed away and lost the name of action. To Mr. David Steel, both provincial and ecumenical in the old Liberal way, the war could not be other than a sad distraction from "neighbourhood politics" and the consolidation of an alliance to wrest power from Mrs. Thatcher. Mr. Roy Jenkins, prospective leader of the Social Democratic Party, but just returned to the House of Commons and not yet fully attuned to it, was content to sit out the war, patiently waiting for the country, all moral energy exhausted, to return to the abandoned but ineluctable agenda of domestic politics. Only Dr. David Owen, Mr. Jenkins' rival and former Labour Foreign Secretary, who claimed, together with his Prime Minister, Mr. Callaghan, to have frustrated earlier Argentinian knavish tricks in 1977, managed successfully to combine high-mindedness and resolution and enhance his reputation. The only clear alternative view of the war at this level, the immediate withdrawal of the task force and the handing over of the is-

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lands to the United Nations without more ado, came from Mr. Wedgwood Benn openly playing for *la politique du pire*, i.e. political or military failure, Suez or Dunkirk. He found only the narrowest ground on which to stand in the country.

Gunboats, After All

Then, once the Commons had spoken on the third of April, once the ships were launched from Portsmouth, there was no substantial dissent. The people wanted gunboats after all, wrote Mr. Peregrine Worsthorne in the *Sunday Telegraph*. Despite all the assertions in the *New Statesman*, the people did give a fig for 1800 Falkland Islanders. "The Falklands War," editorialized *The Times*, when it was all over, "has stirred emotions which have been sunk deep within the spirit of Britain." Without any mass rallies, shouting, or parades, the people had "rediscovered something about themselves and their country." This new strength and resolution had been "carried on the tide of millions of acts of individual rediscovery." Falkland Sound, like Lady Eden's Suez Canal, was flowing not on to the streets but through every drawing or living room in the country.

It was Mrs. Thatcher, the sixty or seventy Conservative backbenchers, and Mr. Enoch Powell supporting her through thick and thin, who caught the tide. "My judgment of Mrs. Thatcher is simple," declared President Galtieri, "I see her as politically inadequate to the historical moment that humanity is living in." Her domestic critics within her own party no less than within the opposition parties would undoubtedly agree, but whatever her shortcomings, no one was better equipped to use this British moment faithfully to reflect the popular will and, if necessary, wage a patriotic war than she. There was a brief period of shock and uncertainty when Tadpole and Taper in the Sunday papers speculated hopefully on her fall. Tory "fainthearts and waverers" (to use her own words) looked around for some one to play Macmillan to her Eden and settled on Mr. Francis Pym, the new Foreign Secretary, a discreet and possibly pliable man, well equipped to bring about a "Carringtonian" settlement and make sure that sovereignty over a few barren rocks did not mar the growing good of the world.

The immediacy and simplicity of Mrs. Thatcher's response confounded them all. Once she had understood from the Chiefs of Staff that the retaking of the Falklands was a practicable military operation, two injunctions were enough to sustain her political

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will: the first, drawn from Liberal stock-in-trade, to act in defense of the principle of the self-determination of small peoples and maintain the rule of law; the second, less articulated but even more insistent, to exercise the inherent right of self-defense, specifically to eject foreign invaders of British territory and the British spirit. Demands from both the open morality and the closed morality were thus fused in a drive towards one end.

Patria Resplendent

It was Mr. Powell's belief that the mood engendered by the expedition had "silently overturned the assumptions about ourselves on which the policies and, more significantly, the vocabulary of Britain in the world, have rested these thirty years and more." From the moment that the fleet left Portsmouth there had emerged a "settled conviction" of "being recognizably a nation, a nation not beholden to others for its ultimate defence, its ultimate rights, and its ultimate decisions." Mrs. Thatcher undoubtedly caught some of this language when she spoke to five thousand Conservatives on Cheltenham racecourse on the third of July.

> Now that it is all over, things cannot be the same again, for we have learned something about ourselves, a lesson which we desperately needed to learn. When we started out, there were the waverers and the fainthearts. The people who thought that Britain could no longer seize the initiative for herself. Well they were wrong.

To the consternation of the parties out of office, the *patria* is once more an active, perhaps a central, factor in British politics. Mrs. Thatcher's venture has tapped resources few believed to be there. What is more, it is a *Tory* patriotism that has been activated. The conduct of the enterprise, so swift, so dramatic, has revived the old obscured belief that, when the chips are down, the Tory party, especially its less *ministrable* back-benchers, are more reliable defenders of the nation than either Labour or the Liberals. Mrs. Thatcher is not less popular because she openly "rejoiced" in soldierly *askesis* in the field, or because, although bested in the end by the churchmen, she held distinctly impenitent, indeed robust, views of what form and spirit would be appropriate to the Falkland Islands service in St. Paul's Cathedral.

For the time being the initiative is hers. In July the Gallup poll recorded a 46-percent support for the Conservative party in the country. Even if some support flows back to the Liberal and Social Democratic Alliance, for whom the war has been a serious

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setback, the prospects, despite the persistence of economic recession and three million unemployed, of the Conservatives under Mrs. Thatcher's leadership winning a clear majority at the next election have greatly improved. The likelihood of the construction of a "healing coalition" of the center by men of good will, "willing to serve" on the stipulation that Mrs. Thatcher goes, has correspondingly receded.

The Falklands conflict has indeed strengthened the odds that the predominantly two-party system which has so long prevailed in British politics will persist, even if immediately the dualism is taking the form of Thatcher versus the Rest. Moreover, if it does survive, it might well be a pattern in which the Conservative Party would be favored to resume with confidence its old status of "the natural party of government," simply because the consensus upon which an amicable alternation would necessarily be based would have moved decisively to the right of center. The doubt which now arises is over which of the available opposition parties will eventually emerge from the Rest to provide the alternative government. In its present deeply divided state, its inability to escape from its disabling commitment to a socialist state, Labour is not in any position to sustain a consensus shaped by Mrs. Thatcher's populist Toryism. It might well be that the Social Democratic Party, still chary of dogma and a definitive program, is more likely to come to terms with a Conservative settlement, accept the world (and the *patria*) as it has come to be, and emerge as Her Majesty's Opposition.

Those leading politicians, within as well as without the Conservative party, who genuinely fear both her style and her ideas, and whose expectations of power and influence under a new dispensation must inevitably dwindle, will obviously do their best to discredit Mrs. Thatcher's record at home and abroad, in particular, with the help possibly of the recently appointed Franks Falkland Islands Review Committee, to sheet home her personal responsibility for the failure to ward off hostilities in the South Atlantic. It is just because she is so clearly identifiable as what Bertrand de Jouvenel calls a "prime mover" in politics, because she is the indispensable source of the new-found active coherence and confidence, serviceable "good" prejudice, within the Conservative nation that such discriminating ill-will focuses upon her.

The disappointed and dispossessed also hope that *hubris* will exact its penalties, that Mrs. Thatcher will discredit herself by mistakenly applying simple analogies from the Falklands war to the

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intractable political and economic problems of Britain. If there is one thing that her opponents are agreed on, it is that the problems of peace are not to be solved by the precepts of war. For them the expedition was not, as it was for Mrs. Thatcher, the stuff of things but a dream which will vanish in the daylight of striking hospital workers, inner-city disturbances, closing factory doors, persisting recession. All this may be true, but there is no doubt at present that they have lost much by ceding the high and central ground of British patriotism to Mrs. Thatcher.

J. H. Grainger

Will the Poles Fight?

It is May 1981. I am sitting with a group of American scholars and journalists in Washington. They are strongly interested in Polish affairs. Solidarity's tide is at the flood, and the struggle for the registration of Rural Solidarity is nearly over. At the Polish border the Russians are mobilizing their forces; Soviet intervention seems to be only weeks away—or even days.

"Will the Poles fight?" one journalist asks me. "Will Polish soldiers side with Solidarity?" another inquires. These questions dominate our discussion. It is difficult to reply to them concisely.

"Intervention," I try to explain, "is possible, but highly inconvenient for Moscow." I do not exclude the possibility that the Russians may try to settle their Polish problem by arranging an internal confrontation between the Polish government and Solidarity.

"Will Poles fight against their own government, then?" someone asks.

"It is possible," I reply, "though I hope they may not." Soon I realize that in this brief discussion I cannot explain the complexity of these problems.

The tide of events sweeps on. There comes to my mind as I write these lines an incident that occurred in December 1981, a few days after soldiers were employed to repress the workers' strikes in the coal mines of Katowice. I was walking down a street in Katowice with a friend of mine, a barrister who had been called to the army (after the imposition of martial law) and appointed to the military prosecutor's office. My friend, despairing at the as-

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signment of prosecuting workers who had struck, had considered simulating sickness at a hospital.

But here he was beside me, in uniform, looking about himself shamefacedly, hoping that he might not meet other friends on the street. At this moment, an unknown old man, approaching from the opposite side of the street, spoke very loudly to a boy at his side: "Look, my boy: here comes the Polish 'hero' who beats the unarmed Polish workers."

My friend's face flushed. The boy stuck out his tongue at us—at the Polish soldier, and at me, a member of Solidarity, because I was walking with the uniformed soldier.

Just then, I recalled the question put to me in Washington seven months before: "Will the Poles fight?" Well, will they? If so, who will fight against whom? I still find myself unable to answer such inquiries.

A few days after the incident of the old man and the boy, one of the Krakow members of Solidarity described to me an incident that occurred in front of the Nowa Huta steelworks. The workingmen had barricaded themselves inside. Armored cars, soldiers, and policemen surrounded the steelworks. They were confronted by a group of women and children standing before the gate.

One of the children fell down. As the child's mother attempted to pick him up, a policeman struck her with his rubber truncheon. A soldier standing nearby tried to help the boy to his feet. At this, the furious policeman, not recognizing his opponent, struck the soldier also. At once a group of military commandos leaped from their car and demolished the policeman. Although I recall the incident, I do not know how it ended. Some time in the near future, will another Polish boy stick out his tongue at these commandos? Presumably so.

Permit me to mention the dilemma of a cousin. A young man just out of secondary school, he entered the *Milicja*—for which the American term National Guard is the nearest equivalent, though the *Milicja* functions as a police also. My cousin had a relatively quiet assignment as a district constable in a Warsaw suburb. His troubles began with martial law. "We do not know anything," he tried to explain. "Most often we do not participate in fights. We are driven in cars to some place. Usually we are held in reserve. The special troops of ZOMO [motorized forces of *Milicja*] are used in action. What should I do? If I refuse to obey an order, I will be imprisoned—at best. But how could I prove that I was imprisoned because I refused to beat the workers? Who would feed my family—Solidarity?"

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Once more I cannot find the proper answer. My best friend, too, is a high-ranking officer in the *Milicja*. We graduated from law school together. Now he works in another urban center as a well-known *Milicja* criminologist. I know that he would be unable to make a living in Poland if he were to resign his post now. Would I be forced to fight against him, and against my cousin also?

Now it is January 13, midnight. My wife and I are listening, as we usually do, to the Voice of America. Also we have been reading the latest leaflets of Solidarity, delivered to us a few hours earlier. Suddenly somebody kicks at the door of our apartment. I open the door; in come two secret agents in civilian clothes, accompanied by a uniformed policeman. They inspect all our rooms, probably looking for somebody who has escaped from the evening demonstration. Fortunately they do not notice the leaflets, openly displayed on a table. I ask if I should take my coat and go with them.

"Not this time," says one of them, trying to make a joke of it. "But you may expect us soon."

After they have left our apartment, my wife asks, "Do you still marvel at the people who do not want to be patient, but who are confused as to which is the genuine enemy and which the apparent enemy?"

A few days later, my wife returns home after shopping for some hours. Tears are in her eyes. She had been standing in a long line, trying to buy candy for our children. Waiting beside her was an eighty-year-old man, trembling. They stood in line together for more than two hours. When the old man reached the counter, he was told that he could not have any sweets—obtainable only with children's coupons issued by the government.

"So I cannot get any candy?" he had asked, a tremor in his voice. He had repeated his question, as if in disbelief. Then in humiliation he had walked out of the shop.

"I wished to offer him our children's coupons," my wife says, "but another woman restrained me, remarking that it might hurt his feelings." A man standing in line had said, "I'd kill the ones who brought about this state of things. We worked hard for so many years, and we're not able to sell candy to an old man. I hate them; I'd kill them all."

My wife cannot hold back her tears as she tells me this story. "How long," she asks me, "will people be able to check their feelings?"

Later, I am in the United States again, and again I am asked "Will the Poles fight?" It is easier to answer this question now.

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Many Poles have fought. But the dilemma—whether to continue to struggle or to compromise—remains difficult. Such fighting would have no victors; the costs that society would be obliged to pay are sufficiently predictable.

So must Poles really fight again—and among themselves this time? I believe that even if the chances for some peaceful settlement are frail, we must not reject a peaceful solution *a priori*. Let us consider the Polish situation once more, looking for factors which may increase the possibility for tolerable arrangements without violence.

The Failed Repression

The appearance of Solidarity in August 1980 seemed to startle even the more watchful observers of Polish politics. Periods of popular unrest were nothing new in countries of the Soviet bloc, but an independent trade union certainly did not accord with socialist realism. Hardly anyone anticipated such a turn of affairs. Only some active members of the Polish underground opposition, from the Committee for Workers' Defense (KOR) or the Confederacy for Independent Poland (KPN), predicted that the ruinous economic situation in Poland could result in profound social and political changes rather than simply a reshuffling of the ruling clique in the Polish Political Bureau.

Previous political shifts had usually been accomplished with the "assistance" of workers. Poles called this method "pulling the chestnuts out of the fire with someone else's hands." The new elites, taking form within the Communist Party, usually waited for signs of social dissatisfaction. The workers' opposition would be skillfully stimulated and incited. Obviously the old coterie, trying to keep the public peace, had to act against people who demonstrated, rallied, or went on strike. The victims of labor unrest, serving as evidence of the inept policy of the acting Politburo, would then open the way for changes in the ruling group. Finally, the workers' opposition would be suppressed by the old party elite; and the new team, glorified as reformers, could resume the previous line of policy—having for some time enjoyed popular support. This method for changing the ruling group was typical of communist regimes. Mr. Gierek's opponents in the Politburo could reasonably expect in 1980 that such techniques might succeed again.

Yet, the chief party members were astonished that the events of 1956, 1970, and 1976 seemingly had been very instructive for the

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Polish workers. The government at last faced a well-organized and strong-minded movement which was ready to fight for real participation in public decisions. Thus it came to pass in the summer of 1980 that the disorganized and quarreling Communist Party had to give ground, compromising with the workers who were organized in the new independent trade union called Solidarity. The subsequent course of events is well known. The government, under Soviet pressure, pretended to engage in dialogue with Solidarity, simulating actions that might satisfy workers' claims.

All the time during these negotiations, the danger of Soviet intervention was the clinching, though unspoken, argument—both sides knowing such intervention to be possible (however inconvenient) for Moscow. In these circumstances, it could be expected that Moscow would prefer to exert pressure upon the Polish government to deal decisively with Solidarity. Yet both Moscow and the Polish authorities required time to draw up a plan of action. The Polish Politburo, under the leadership of Mr. Kania, seemed ill suited for such action: it was too moderate and had been weakened by internal disputes.

The first indication of possible domestic confrontation within Poland was the attempt at concentration of power. General Jaruzelski, appointed to the principal posts in the state, seemed to be perfectly chosen. He had Moscow's full confidence, yet, during the events of the summer of 1981, he presented himself as a man of compromise, a moderate who had ruled out the use of arms against Polish workers. Initially Secretary of Defense, he later took over the post of Prime Minister and (after the Party Congress) that of First Secretary of the Central Committee. These facts suggested that some action against Solidarity was being prepared. By posing as a patriot, General Jaruzelski stilled these suspicions.

For the most part, this scheme was successful. The government simultaneously provoked and warned Solidarity, trying to prove to foreign observers that Poland tottered on the brink of disaster. Some union leaders did not believe that any armed action would be undertaken by the Polish government against an organization with so much popular support. Other leaders, Lech Walesa among them, did not dismiss the possibility of military repression; they spoke openly of the danger of confrontation between Solidarity and the government. It was the ordinary union members, growing radical, who opposed further, inconclusive negotiations. Yet, without some hostile action by the government, union leaders

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could not cease bargaining and go underground. And so they waited, hoping that the government would realize that any action taken against the entire nation must, in the long run, end in failure.

The details of the events that followed December thirteenth are well known. Although the government succeeded, it is not easy to measure the degree of success. Certainly it was easier for the government to win than to retain the advantages of its victory. Solidarity's remnants went underground. After a few weeks of wait-and-see, the Church began to criticize more openly the policies of the Military Council. The union's ideas became even more popular. Lech Walesa became a national hero. Even the old communists, disappointed in General Jaruzelski's policy, expressed their opposition; some resigned from the party. By late December, the party had almost ceased to exist. Even though the Central Committee labeled this state of affairs "the purging of the party ranks," the Polish people felt that society was purging itself of the Communist party. As some commented: "Before, very few Poles had a clear idea about who was who. Now everybody knows." My wife's question had been answered. Those who remained in the party were rejecting Poland.

Nor did the junta anticipate the reaction of the West. Economic sanctions infuriated the communist-controlled media, which promptly launched a "propaganda of success," not used since the Gomulka and Gierek regimes. This propaganda about increasing supplies of raw materials and greater factory production made the people laugh; they saw the passive resistance of the workers and the conspicuous absenteeism in schools and offices.

Military government, suitable only for a state of emergency, showed itself ineffectual in the face of grave economic, social, and international problems. The more profound the difficulties of a state, the more acute problems become under military rule. The longer a military regime endures, the more its officers find it necessary to compromise with important elements in society.

The Junta's Dilemmas

This rough truth is obvious today in Poland, which finds itself caught between four conflicting forces: the near collapse of the Polish economy, the threat of Soviet intervention, Western economic sanctions, and the continued resistance of Solidarity and the Polish people. Without the cooperation of the West, Poland's economic troubles cannot be diminished. Polish industry is al-

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most wholly dependent on imported raw materials, spare parts, and foreign technology. This dependence results from the blunders of the Gierek regime. Mr. Gierek's government, having at its disposal considerable amounts of foreign currency derived from unrestricted Western loans, decided to import as much as possible. The regime assumed that the rate of Western inflation and the rapid development of Polish industry would make possible swift amortization of investments and repayment of loans.

But the regime erred. The Polish economy, based mainly on agriculture, was unable to change its character quickly. Mr. Gierek's government could not provide experts capable of coordinating the economy. Arbitrary decisions of the party leaders, frequently altered, became absurd. The regime's expectation of the rate of Western inflation was not borne out. In short, the Gierek policies resulted in the collapse of Polish agriculture and disorganized industry, already weakened by imports from the West. Moreover, the structure of production, shaped in the previous ten to fifteen years, could not be altered easily. A long time will be required for Polish industry to become more independent. Even with Soviet assistance, that goal is highly unrealistic.

On the other hand, the way back to an economy based upon agriculture is long and difficult. The Polish countryside is inhabited by older people, lacking proper equipment and fertilizers. The young people transferred by the government to urban centers and employed in industry mean never to return to rural life. Distrusting the government, Poles will not invest in agriculture for they fear the expropriation they have experienced in the past. There is also the discouraging possibility of being ordered to supply quantities of livestock and agricultural products to the state each year at fixed prices.

If, in these circumstances, the West maintains a tough stand and continues its economic sanctions, Poland will not be able to surmount its difficulties. And with the Polish population working as slowly as possible in an attitude of passive resistance, the junta cannot reckon on continued assistance from the Soviet Union. Russia, with its own economic distress, cannot feed the Poles for any great length of time. Permanent scarcity of raw materials and spare parts will cause lengthy standstills in factories. Unemployment, swelling inflation, and virtual starvation will produce fierce social unrest. *If the West holds to its course of economic sanctions, and the Poles continue to resist the military regime, the total collapse of the Polish economy is inevitable.*

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Two approaches to Poland's economic problems seem to be under consideration. The first, the so-called *authoritarian* scheme, accepts some free market ideas and looks toward a restoration of trade with the West, as well as some reconciliation with Polish society. It resembles the Gierek approach in which nationalistic clichés were substituted for the old party imperatives. But the party propaganda warns that another approach is under consideration. That approach is actually a program of semi-colonial dependence upon the Soviet Union. (The junta claims disingenuously that Western sanctions have forced Poland to turn to the Soviet Union and the communist common market for economic cooperation.) Favored by the hard-liners in the party's Central Committee, it spells a further *totalitarian* transformation of Polish political and social life.

Despite statements to the contrary by the Military Council, the totalitarian approach is not a feasible one. It would be opposed by the Church, which has always feared, with good reason, that a closer relationship with the Soviet Union would strengthen the antireligious sentiment in the Polish Communist Party. Secondly, the required shipment of a substantial part of Polish industrial production east would increase inflation. And finally, many Polish industries are geared to Western technology and cannot process raw materials for Eastern equipment.

Under the circumstances, the only rational approach for the junta is one of compromise. The first perceptible signs that the regime has begun to recognize this are beginning to emerge. The government seems to be considering granting permission to emigrate. Mass departures might forestall unemployment and purge the society of the most militant dissidents. Yet, one must remember that this measure has always been strongly opposed by the Eastern bloc on the ground that it would drain talents and energies from every country under Soviet domination. Other signs that the government contemplates concessions are the release, in the spring and summer of 1982, of Solidarity members interned in December 1981 and the relaxation of martial law.

It should be noted that the concessions made to date were acts of necessity, not of good will. The last relaxation of martial law was announced just before July 22—the day that Solidarity had proclaimed was the deadline for the start of negotiations. The union had threatened the junta with a nationwide strike if some compromise were not reached by that date. But the repression has only been modified. Solidarity leaders are still interned and the

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union is still suspended. If the Reagan administration is looking for signs of progress in Poland before lifting sanctions imposed against the Soviet bloc, to date the only signs are weak ones. The Polish people, too, await stronger indications that genuine reconciliation between the government and the people will be forthcoming and that the country's relationships with the West will be restored.

Solidarity's tactics in the month following the imposition of martial law seem to have been effective. The first days of the military regime showed that the workers were unable to repulse the attacks of the well-armed *Milicja*. Tanks smashed open the walls of factories; tear gas and water cannons disabled strikers; special riot police with plexiglass shields, automatic rifles, and police dogs overcame workers fighting with axes, hammers, and chains. Though there were casualties on both sides, it became obvious that against stout resistance, the police would use rifles—as they did in the *Wujek* coal mine at Katowice.

So overcome, the Solidarity leaders, who had managed to escape the early arrests and to hide themselves, decided to bide their time and endure the first stages of repression. This was a lesson in patience and prudence for the union. This seemingly peaceful interval to divert the government's attention to economic problems deluded the regime and provided time for union reorganization. "The winter is yours, but the spring will be ours," was seen written on the walls of Polish houses.

Demonstrations at the beginning of May in Warsaw, Gdansk, and other Polish urban centers were the first sign of the union's new tactics. Solidarity spokesmen urged Poles to gather at churches and organize antigovernment rallies. Police smashed the marches —the biggest and best-organized since the proclamation of martial law. The government threatened that it would tolerate no more displays of opposition; but by May it was apparent that the junta did not find it easy to mobilize enough power to maintain control throughout the country. It had become almost impossible to hold police and soldiers in a constant state of preparedness. Solidarity found itself in circumstances in which wearing down the government by sporadic disruption presented the prospect of an effective strategy. This remains true today.

Is Compromise Possible?

The junta's policies often are irrational, rarely conforming to the public interest; but they are not policies of self-destruction.

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The Polish Military Council is now aware that it cannot gain the support of either the Church or of the general population. If unrest and repression in Poland grow more intense, the West is likely to tighten its restrictions against the Eastern bloc. This would lead to the collapse of the Polish economy predicted above. So if anti-government rallies and demonstrations recur, but are something less than open violent confrontation, the junta might be induced to compromise with the union.

The Soviet Union also has the prospect of a change among its ruling elite. Leonid Brezhnev is in poor health, and although one cannot clearly foresee the possible new course of Russian politics, this much may be said: every change in the highest Soviet posts opens opportunities for change in Eastern bloc countries.

A good many people think that Solidarity should make no more concessions: that the junta is not serious about compromise. But the possibility of negotiation should not be dismissed altogether. And the union must take into account geopolitical realities for Poland. Decisions of the West at the end of World War II left Poland within the Soviet sphere of influence. This does not mean that Poles should accept their fate blindly; it means only that they must think of their borders and neighbors. Let us consider the options before Solidarity when such facts are taken into account.

Even if the union could incite a national uprising to defeat Jaruzelski's junta (which is most improbable), Poles would then face Soviet intervention. The Soviet Union has many Jaruzelskis ready to replace the present military government. Some young Polish radicals who did not live through the Nazi occupation, probably dream of national insurrection. They do not remember the Warsaw uprising of 1944 that left thirty-thousand Poles dead in the streets. Perhaps such an uprising would hasten the collapse of communism, but Poles would pay the whole cost. The Western countries would observe the event, applaud Polish courage, and (as in Afghanistan) do nothing.

On the other hand, if Solidarity should decide to stay underground, its status would be reduced to that of subversive organizations in other socialist countries. The union can accomplish its mission only if it acts openly and legitimately. So Solidarity's leaders must also consider the possibility of compromise. But under what conditions?

Release of all arrested members of Solidarity and the formal restoration of the movement would be the *sine qua non* of all negotiations. (The creation of a free union organized on democratic prin-

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ciples was in itself the biggest step toward freedom ever achieved in any socialist country.) Consolidation of Solidarity as a permanent component of Polish social and political life is vastly important. It would open paths to a gradual metamorphosis in the whole socialistic system. The people in the Eastern bloc are eager for democracy. The totalitarianism of the Communist Party elites blocks any development of political systems in the countries under Soviet domination. But Democratic changes initiated by Solidarity could be steps toward that much-promised "socialism with a human face."

I am no believer in the infallibility of democracy; it has its advantages and its disadvantages. Yet I think that, after a despotic period, democratic changes would be beneficial in all socialist countries. Their societies would have to adjust to new conditions, to overcome many obstacles, merely to learn democracy. But Solidarity, as the stable component of the Polish system, could popularize democratic concepts among the other countries of the Soviet bloc. I wish to emphasize this point, thinking that the Soviet regime is hesitant to attack social institutions which have become solidly established. Moscow has not attempted to abolish the Catholic Church or the relics of private ownership in Poland, aware of the Poles' strong attachment to these institutions. It is characteristic of Soviet policy that (in both foreign and internal affairs) Russians try to insinuate themselves into places they find weak. But when they encounter strong opponents and the prospect of swift victory seems uncertain, they will withdraw.

Accordingly, the Russians will never attempt to attack the United States directly except in some tremendous crisis. Rather, they will endeavor to weaken America's international position, to assist America's opponents, to incite unrest among America's neighbors, and to spread communist ideas among Third World countries.

Similarly, in their own sphere of influence the Russians know how strong are the religious convictions of Poles and how deep is the attachment of Polish farmers to their land. The 120 years during which Poland, after three partitions, disappeared from the map of Europe, did not suffice to destroy its sense of national unity and its ties with Catholicism. Stalin once said that to fix communism upon Poland was like "trying to saddle a cow." Today's Soviet leaders, adapting this remark, say that to coerce Poles is "like trying to hold a wolf by the ears." This being so, if a restored Solidarity were to survive long enough to become rooted in

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Polish reality, then the Soviets would of necessity tolerate the union's activity. To achieve this, Solidarity might renounce political ambitions. After all, the union has never aspired to replace the Communist party. But Solidarity could protect and develop democratic ideas in the whole Eastern bloc.

Such compromises seem possible, indeed justified. Yet one cannot be certain whether compromise will be considered as readily by the junta, as by Solidarity. The West, easily distracted as usual, has already fixed its attention on political problems elsewhere. The economic sanctions imposed upon the Soviet bloc are too feeble, uncoordinated, and ineffectual. Polish affairs cannot attract the world's attention permanently. The Polish military junta, though surprised by the first strong reaction of the West, found Western sanctions not as painful as armed Soviet intervention would be. So we should not wonder that Poles are saying again, as they did in the nineteenth century, that they must keep on dying to remind the world that Poland still exists.

If someone asks, even with great solicitude, Will the Poles fight?, he needs to remember that "to fight" ordinarily implies some chance of winning. In Poland, "to fight" has meant, and still means, the probability of being slain, extirpated, wiped off the map of Europe. That is why we should look, so long as reasonably possible, for the sort of compromise suggested above. Fighting and survival are no longer merely Polish questions.

Rett Ludwikowski

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Is Racial Discrimination Special?

MICHAEL LEVIN

"Reverse discrimination" is the policy of favoring members of certain groups (usually racial), in situations in which merit has been at least ideally the criterion, on the grounds that *past* members of these groups have suffered discrimination. Giving someone a job he was denied because *he* was discriminated against does not come under this heading, since such redress is justified by ordinary canons of justice, in particular that of giving someone what he is owed.[1] I am referring, rather, to the practice of hiring or admitting a preset number of (e.g.) blacks regardless of whether the blacks so hired have been wronged, and regardless of the qualifications of competing whites. The difference between the two policies is the difference between restoring a robbery victim's property to him, and hunting up the descendants of robbery victims and giving them goods at the expense of people who robbed no one. I have no quarrel with the former, many quarrels with the latter: reverse discrimination is as ill-advised a course of action as any undertaken by this country in at least a century. It cannot be justified by its social benefits, since experience suggests that this policy is proving disastrous.[2] It cannot be justified as giving particular

An earlier version of this article appeared in the *Journal of Value Inquiry*, a quarterly journal published by the Department of Philosophy at the State University College at Geneseo, New York.

1. At least this is current public policy, as reflected in the Civil Rights Act's ban on racial discrimination in employment. I will not challenge it here. It is, however, arguable, that employers do not *owe* anyone jobs. An employer, on this argument, is *choosing* whom to give his job to, and is entitled to choose on criteria that most people would find objectionable. His right to liberty overrides his obligation not to indulge prejudice. If so, the Civil Rights Act curtails freedom impermissibly.

2. David Kahn's *Hitler's Spies* (New York: Macmillan, 1978) provides a good account of what happens when a society replaces merit standards by racial ones. The primary qualification for the SD (the Nazi party intelligence organ) was "German or similar blood." Mr. Kahn notes acidly, "Never mentioned was objectivity in evaluating information" (p. 254). Data in this country are rare, since concerned parties, such as the Medical School of the University of California at Davis, have kept no records of the performance of its affirmative action admittees. So, apart from the interesting but incomplete work of the sociologists

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members of the chosen group what they would have gotten if they had not been discriminated against, since by stipulation "affirmative action" (bureaucratese for reverse discrimination) goes beyond such an appeal to ordinary ideas of justice and compensation. It penalizes a group of present-day whites—those who are at least as well qualified but passed over—without proof that they have discriminated or directly benefitted from discrimination: whites no more responsible for past discrimination than anyone else. Lately, as the harmfulness and unfairness of reverse discrimination have become more evident, its proponents have taken to arguing that reverse discrimination is needed to prevent future discrimination. Such "preventive discrimination" has all the disadvantages of preventive detention and none of the advantages, such as the elimination of clear and present danger to life and limb.

But such frontal assaults on reverse discrimination usually accomplish nothing, so I will not attempt one here. I will instead focus on a clear-cut issue which is central to the debate but which has, surprisingly, been almost completely ignored. It is this: what is so special about racial discrimination? Let me put the question more exactly. I will be arguing shortly that the only possible defense of reverse discrimination represents it as an attempt to rectify the consequences of past racial discrimination. But why has society selected one kind of wrong—discrimination—as particularly deserving or demanding rectification? Other past wrongs have left their traces—acts of theft, despoliation, fraud, anti-Semitism—yet society has no organized policy of rectifying those wrongs. It surely seems that if the consequences of one kind of wrong should not be allowed to unfold, neither should those of any other. And this is what I want to establish: acts of racial discrimination have no morally special status. Important consequences flow from this. For reasons I will propose, it is fairly clear that society—in particular the employer—has no general standing obligation to block the consequences of past wrongs. So if discriminatory acts are no more deserving of rectification than wrong acts generally, no one is under any obligation at all to rectify them, or to be deprived so that these acts may be rectified.

Nathan Glazer, Thomas Sowell, and Pierre van den Burgh, one must rely on personal impressions and the common sense presumption that abandoning merit is unlikely to improve the quality of employees. The question remains—would you fly in an airplane whose pilot was admitted to an affirmative action training program?

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Righting the Wrong

With these preliminary points as background, let us look at the issue again. I noted that reverse discrimination discriminates against whites in a way that cannot be justified by ordinary notions of justice. Thus, if it is justifiable at all, it must be because we owe something to present-day blacks in some extraordinary sense. And the standard reason offered for saying that we do is that the blacks to be hired today bear the burdens of past discrimination. Had there been no racial discrimination, they would have been able to get those jobs; their qualifications would have been as good as those of the better-qualified whites they are displacing. It is sometimes added that all whites benefit in some way from past discrimination, so all whites owe blacks something, namely a more advantageous position. Affirmative action is supposed to rectify the consequences of past discrimination, to draw the sting from acts so bad that their consequences cannot be permitted to unfold.

Given this conception of what they are advocating, a word is in order about just what to call what proponents of affirmative action seek to accomplish. "Rectification" is the best word I can think of. It is better than "annulment," which carries no implication that the annulled act is wrong *in se*. "Extraordinary compensation" is not only prolix, it would not sit well with the many defenders of affirmative action I have encountered who disavow any compensatory aims. For similar reasons I will avoid "compensatory discrimination," the phrase Jimmy Carter used during the 1976 presidential campaign. "Favoritism" or "visiting the sins of the fathers on the sons" might be viewed as tendentious. Statements of particular affirmative action programs—that such-and-such percentage of so-and-so's be taken on—generally do not carry any statement of justification, and government officials may settle for arguments *ad baculum*. For instance, when Eleanor Holmes Norton, then head of the Office of Economic Opportunity, was asked on *60 Minutes* about the fairness issue, she replied: "White males will just have to bite the bullet." I suspect no English word quite captures what reverse discrimination is supposed to do—which says something about the deep confusion underlying this policy and its rationales.

Whatever we call it, the aim of affirmative action is to undo the consequences of past discrimination. But then the issue I raised becomes pressing. If there is nothing morally special about dis-

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crimination, nothing which makes it especially deserving of rectification, any policy that treats discrimination as if it were morally special is arbitrary and irrational. Consider: Mr. X, a black of today, is supposedly owed special treatment. But surely if you owe Mr. X special treatment because his ancestors were the target of one wrong—discrimination—it would seem you owe Mr. Y special treatment if his ancestors were the target of some other wrong—theft, say. Racial discrimination is not the *only* wrong that can be committed against someone, and it is far from the worst. I would rather be denied a job because I am Jewish than be murdered. My murderer violates my rights and handicaps my children much more seriously than someone who keeps me out of medical school. So the question is: if I owe Mr. X a job because his ancestors were discriminated against, don't I owe Mr. Y the same if his ancestors were defrauded? I believe the answer must be yes: there is nothing special about acts of discrimination. And even if you think I have misrepresented affirmative action or its rationale, the question and its answer are important. Other justifications for reverse discrimination also tend to treat racial discrimination as somehow special, as do such judicial and legislative initiatives as busing and "fair housing." Indeed, three decades' preoccupation with race has created a sense that racial prejudice is not just a wrong but a sin, an inexpungeable blot on the soul. It is worth considering whether this attitude is rational.

Let me start with a truism. Discrimination deserves to be halted where it exists, and redressed where it can be, because it is *wrong*. Discrimination is worth doing something about because *wrongs* are worth doing something about and discrimination is wrong. Once we grant this, we start to see that there is nothing *sui generis* about discrimination. It competes with other wrongs for righting. And I take it as obvious that some wrongs demand righting more urgently than others. If I pass a negative comment on Jones's tie in private but defame Robinson's ancestry on national television, I had better apologize to Robinson before I do so to Jones. And if I have embezzled funds from an orphanage, top priority goes to seeing that I give the money back. Finally, if Smith is destitute because I defrauded Smith's father, I had better make amends to Smith before I worry about the sons of men I insulted. So: denying a man a job on grounds of color is evidently just one among many ways of wronging him. It is far less egregious than assault or murder.

It is frequently but mistakenly claimed that racial discrimina-

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tion is special because it involves a group. Certainly, an act of racial discrimination involves a whole group in the sense that it involves treating an individual not in his own right but insofar as he belongs to a group. But racial discrimination is not the only kind of act that is thus group-related. Many wrongs having nothing to do with race are discriminatory in the precise sense that they base the treatment of an individual on membership in a morally irrelevant group. Nepotism is discrimination against nonrelatives. When I make my lazy nephew district manager, I am disqualifying more able competitors because they belong to a group—nonfamily—membership in which should not count in the matter at hand. Discrimination need not be racial: any time you make a moral distinction on morally irrelevant grounds, you discriminate invidiously. In a society in which racial discrimination was unknown but capricious nepotism common, denial of due process on grounds of family would provoke as much indignation as racial discrimination does now.

It is sheer confusion to argue that acts of racial discrimination are special because they insult a whole race as well as wrong an individual. When I assault you, I assault no one else—and when I discriminate against you, I discriminate against no one else. True, my discrimination may indicate a readiness to discriminate against others and may create widespread anxiety—but my assaulting you may indicate a readiness to assault others and create even greater general anxiety. If I bypass Mr. X because he is black, only Mr. X and his dependents suffer thereby. Perhaps because color is so salient a trait, we tend in uncritical moments to think of the black race (as indeed the white race) as an entity existing in and of itself, above and beyond the particular blacks who make it up. Philosophers call this conversion of an abstraction into a real entity "the fallacy of reification." Having reified the race, we then think that an insult to this entity is particularly malign, either in itself or because this entity somehow transmits to all blacks the harm done by single acts of discrimination. Some such reasoning must underlie the oft-heard ideas that the harm done to a single black man "hurts blacks everywhere" and that the appointment of a black to the Supreme Court is "a victory for blacks everywhere," remarks which make no literal sense. This tendency to reify is especially pernicious in the context of compensation. Why are we willing to contemplate special treatment for blacks now, when we would not contemplate special treatment for someone whose ancestors were defrauded by a man who left no

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descendants? Because, I suspect, we think that by benefitting today's black we apologize for the long-ago insult to the race, and that this apology and benefit will somehow be transmitted back to the blacks who endured the original discrimination. Were this picture accurate, it might justify supposing that past discriminatory acts cast longer shadows than other wrongs. But it is just a myth. A racial grouping no more deserves reification than does the class of people whose ancestors were defrauded. We resist the impulse to reify in the latter case only because the trait in question is not visually salient and has no especially coherent history.

(Some slight sense can be made of "injury to a group," as when we say that a traitor endangers the security of a nation. But even here the harm done is to individuals, the particular citizens. The traitor deserves punishment because he has harmed each citizen, not "the nation" as a thing apart.)

Patterned Wrongs

Perhaps the main reason for thinking of acts of racial discrimination as morally distinctive is that each is an instance of a pattern. My discriminating against Mr. X is part of a self-sustaining pattern of wrongs. And, indeed, we do find wrong acts that together form a pattern more disturbing than each wrong act taken singly: Jack the Ripper's legacy is more appalling than eleven isolated murders. Wrongs seem like notes, which have different musical values when part of a melody than when heard in isolation. But this intuition must be carefully assessed. A single wrong act cannot be made *more wrong* because there is some other wrong act which it resembles. If I discriminate against you, my act has a certain amount of wrongness. If I then discriminate against someone else, my previous act against you does not take on more wrongness. This is so even with Jack the Ripper. His murder of the first prostitute did not become *more wrong* when he murdered his second. If he had died before committing his second murder, his first murder would still have been as bad as it actually was. If, say, he owed the family of the first prostitute some compensation for his misdeed, he did not suddenly owe them more after his second. So the fact that acts of discrimination come in groups does not show that a single act of discrimination is any worse, any more deserving of rectification, than it would have been had it occurred alone.

Two factors account for our feeling that patterned wrongs are worse than isolated ones. The first is that the *perpetrator* of a patterned wrong is worse. Jack the Ripper is worse than a man who

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kills once, even brutally, from passion. But this does not mean that what he did, in each case, is worse than a single act of murder. Similarly, the most we can say of bigotry is that a habitual bigot is worse than a one-shot bigot, not that an act of bigotry is in itself worse than an act of caprice. The second reason patterned wrongs seem especially malign is that they create anxiety through their promise of repetition. Jack the Ripper's actions create more anxiety than eleven unconnected murders because we believe he will strike again. But this shows only that it is especially important to *halt patterns*, be they of murder or discrimination. It does not mean that a particular act in a discriminatory pattern is worse than it would have been in isolation. And it is worth stressing that antidiscrimination laws, without benefit of affirmative action, suffice to halt patterns of discrimination.

Granted, racial wrongs have gone beyond discrimination in hiring or the use of public facilities, extending all the way to lynching. But to acknowledge this is to bring racial wrongs under independent headings—denial of due process, assault, murder. Lynching Emmet Till was wrong not because Emmet Till was black, but because lynching is murder. So if blacks deserve special treatment because of (say) this country's history of lynching, it is because descendants of murder victims deserve special treatment. But this concedes my point: what was wrong about especially egregious acts of racial discrimination is what is wrong about parallel nonracial acts; if we treat the former as special, we must treat the latter as special as well. Were past discriminations special because they were state-approved and in some cases state-mandated? I do not think so. State sanction in itself can make no difference. Even if "the state" is an entity over and above its citizens and their legal relations, the wrongness of an act—although not the blameworthiness of an agent—remains independent of who performs it. So if discriminating is wrong, it is wrong, and to the same extent, no matter who performs it. State-sanctioned past discrimination, therefore, is no stronger a candidate for rectification than any other discrimination. In any case, even if we *did* consider state sanction to be morally significant, to be consistent we would have to apply this standard to all other state-sanctioned wrongs. We would, for example, have to give special treatment now to descendants of people who were harmed under the terms of a statute repealed decades ago. But I take it that no one would support affirmative action for the grandchildren of brewmasters bankrupted by the Volstead Act.

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Finally, it has been suggested that grave discriminatory wrongs, such as the lynching of blacks, were special because they were done with the intention of intimidating other members of the terrorized group. Quite so: but again this makes my very point. To call an act of lynching wrong for this reason is to bring it under the umbrella of *intimidation*: a precisely parallel nonracial act of intimidation is just as wrong, even if we have reason to think the perpetrator is not as vicious. Many years ago, unions were in the habit of wrecking restaurants that refused to be unionized as a warning to other restaurants. Even today, mob enforcers kill informers, or retailers who refuse to pay protection, in order to intimidate other potential informers or defaulters. So if we treat blacks as special because they belong to a class other members of which were terrorized, so must we treat restaurateurs as special, and indeed all small businessmen in businesses once victimized by the protection racket. But I take it that no one would suggest affirmative action for restaurateurs. Nor will it do to say that this is because today no restaurateur need fear union or mob goons. In fact, a restaurateur is in considerably more danger than a black. The last lynching occurred in 1954, while union vandalism and criminal extortion are the stuff of today's sensational press.

Special Compensation

A subsidiary point. I have so far let pass one peculiarity of affirmative action programs: they award jobs or placement to rectify past wrongs. Yet normally when we compensate someone for wrongful deprivation, we give him the equivalent of what he lost, giving him the thing itself only when feasible. If your negligence costs a pianist his hands, you are not obliged to hire him to give a concert. The whole thrust of his complaint, after all, is that he is no longer competent to undertake such an enterprise. You owe him the money he would have made from concertizing, plus some monetary equivalent of the satisfaction he has lost through your negligence. So *even if* past racial discrimination has wrongfully cost Mr. X a job, it does not follow that proper compensation is a job. What he is owed is the job or the monetary equivalent thereof. If the job is unavailable—where this normally includes Mr. X's not being the best-qualified applicant—all he is owed is its monetary equivalent. Why, then, is it assumed without question in so many quarters that if past discrimination has cost present-day blacks jobs, they deserve *jobs* rather than the monetary equivalent of the jobs they would have gotten? Only, I

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believe, because we think there is something *special* about discrimination, that its consequences deserve amelioration in a way that the consequences of other wrongs do not. Discrimination is so bad that not only must we compensate for it, we must make the world as if the wrong had never been. Only by attributing such reasoning to its proponents can I make sense of the special form "affirmative action" programs invariably take. And if indeed racial discrimination is not especially wrong, such special compensation starts to look morally arbitrary and even bizarre.

It is obvious that no employer has a general obligation to rectify wrongful acts, to offer extraordinary compensation. I am not speaking, again, of righting wrongs he perpetrates or directly benefits from. I mean that if, as a result of some wrong once done —not necessarily to an ancestor—I am worse off than I would have been, you, an arbitrarily chosen employer, have no obligation whatever to neutralize the consequences of that wrong. No one has any obligation to make me as well off as I would have been had that wrong not been committed. Why? Basically because it is *impossible* to rectify the consequences of all past wrongs. Consider how we might decide on compensatory payments. We trace the world back to the moment at which the wrong was done, suppose the wrong not done, and hypothetically trace forward the new history of the world. Where I end up under this hypothetical reconstruction is where I deserve to be. I am owed the net difference between where I am now and where I would have been had the wrong not been done.

So far, so good—this is a relatively uncontroversial description of what compensation is, and of the reasoning juries run through when they award an accident victim on the basis of what he would have done had he not suffered the accident.[3] But outside of such

3. *Relatively* uncontroversial. Robert Nozick's casual endorsement of it in *Anarchy, State and Utopia* (New York: Basic Books, 1974) drew impassioned reproach from the philosophical community. David Lyons ("Rights Against Humanity," *The Philosophical Review* (1976): pp. 208–215) complained that Professor Nozick ignores "the enormous debt due blacks and Native Americans in our own country" (p. 214). This remark and the passage in which it appears exhibit a disproportionate number of the fallacies I am discussing. Lawrence Davis ("Comments on Nozick's Entitlement Theory," *Journal of Philosophy* (1976): pp. 836–844) recognizes that on the present account "full-scale rectification of the injustices in our society [in the] past...200 years" is impossible, and concludes that this is a weakness of the account. But, as I argue below, common sense does not demand that an account of rectification guide us through the Sisyphean task of righting 200 years of wrongs.

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very limited contexts as accident compensation—for most wrongs that have occurred—it would take omniscience to say how the world would have turned out had the wrong not been done. If you wanted to make up to me for the theft of my grandfather's watch in 1900, how on earth do you propose to reckon the position I would have been in had my grandfather's watch not been stolen? I might have been richer by a watch. I might have been poorer, since, being deprived of a watch, I might have worked harder than I otherwise would have. My grandfather might have met my grandmother while searching for his stolen watch; so if it were not for the theft of the watch, I might not have existed at all. Indeed, if you place yourself under a general ameliorative obligation, you will have to calculate simultaneously how well off each and every one of us would have been had all past wrongs not occurred. There is more: I am supposedly owed a certain something because of past wrongs, but who owes it to me? Surely not you—you don't owe me *all* of it. Do all employers owe me an equal portion? Or does their portion depend on how much they have benefitted from the initial theft? If the latter, how is one to calculate the debt, if the theft was in another country and another century?

Suppose I take it on myself to yield to Mr. X if I am better off than he is because of some past wrong—not to him, necessarily, since I am offering extraordinary compensation. Now surely there is some *other* past wrong which has made *me* worse off than I would otherwise have been, worse off than (say) Mr. Y. So I must drop myself down to make way for Mr. X, but I also deserve a push up beyond Mr. Y. If each of us tried to put himself just where he would be if there had been no past wrongs, we would all be caught in a mad whirl of exchanging positions and privileges with one another. If a full reckoning were in, those who now seem as if they would end up in a better position might end up in a worse one. Take Mr. X, an American black, who we think is worse off than he would have been had there been no slavery. Yet he may now be better off than he would have been had his African ancestors not conquered a neighboring tribe that was then raided by slave traders; had Mr. X's ancestors respected territorial boundaries, he might now be a sickly native of Uganda. (More likely, he would not have existed at all.) So unless we quite arbitrarily decide to rectify only some wrongs, we are undertaking a quite impossible task.

What about limiting ourselves to rectifying wrongs we know about? But then we should surely try, indeed try as hard as possi-

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ble, to find out about other wrongs, to trace their consequences, and rectify them. Once again, if we set out on that path, we will find ourselves with obligations that cannot be discharged. And an unmeetable obligation is no obligation at all. Indeed, it is far from obvious that the consequences of discrimination are easier to trace than those of other wrongs. I know victims of theft who have nothing to show for it. Why not benefit them? It is clearer that they are worse off from a past wrong than that an arbitrarily chosen black is.

We must remember that we are all where we are in the competitive and distributional scheme of things because of past wrongs. It may be that we got something in a wrongful way, but those from whom we took it may have gotten it wrongfully in turn. Who knows but that you are reading this because of some dirty Hellenic trick on the plains of Marathon. Perhaps we should award Western Civilization to the descendants of Xerxes, or give them its dollar equivalent! Each of us lies on a "competition curve," which graphs jobs against our chances of getting them. These curves are connected: I can't move to a better one without bumping someone else down to a worse. If we try to put each person on the curve he would have occupied had there been no relevant wrongdoing, we will be raising and lowering everybody, sometimes at the same time, with no end in sight.[4] Perhaps God is sufficiently powerful, well-intentioned, and well-informed to put each of us on his proper curve. But no lesser power—not ITT and not the Department of Labor—can undertake the task without absurdity.

Since, then, no one has any general rectificatory obligation, and since—as I argued earlier—past discrimination does not stand out from other wrongs as especially demanding rectification, I can see no justification at all for reverse discrimination.

I have embedded my main point in a somewhat complex context. Let me end by highlighting it. While racial discrimination is wrong, it is only one wrong among many and has no special claim on our moral attention. Past discrimination no more deserves extraordinary compensation than many other wrongs. And so any employment policy which does treat racial discrimination as special is arbitrary and irrational.

4. For more on "competition curves," and the idea that job opportunities are property, see my "Equality of Opportunity," *Philosophical Quarterly*, April 1981.

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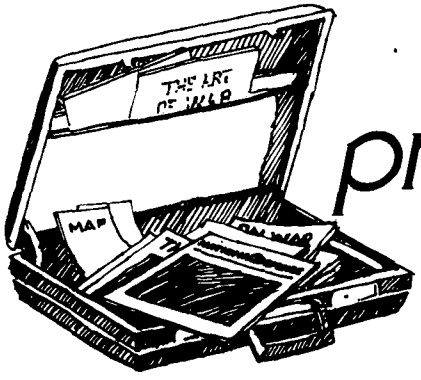

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NATO'S Nuclear Dilemma

COLIN S. GRAY

Speaking on June 15, 1982 on behalf of his absent and ailing chief, Soviet Foreign Minister Andrei Gromyko informed the U.N. General Assembly's special session on disarmament that "The Union of Soviet Socialist Republics assumes an obligation not to be the first to use nuclear weapons."[1]

This declaratory policy, of course, cost nothing and had a solely propaganda import, and was appropriately derided by U.S. and U.S.-allied official spokesmen. Nonetheless, it provided another example wherein the Reagan administration was placed on the defensive, seeking to explain why superficially attractive sounding ideas with an apparent disarmament connection were nothing more than a snare and a delusion. In part for reason of ill chance, but also because of political insensitivity, muddled thinking and declaratory indiscipline, the Reagan administration has suffered a veritable "time of troubles" with respect to the role of nuclear weapons in U.S. military policy. "No first use" of nuclear weapons, as a possible policy position, is a small though symbolically significant element in the current debate over the nuclear question.

Sadly for balance in defense debate, "no first use" has long been tainted fatally by its clear association with Soviet propaganda. Even had NATO been toying seriously with the idea of a "no first use" declaration in the summer of 1982, which was not the case, President Brezhnev's statement before the U.N. General Assembly special session would have served to inter it indefinitely. Somewhat uncharacteristically, the Reagan administration has betrayed an undue sensitivity to potential political peril with regard to the idea of "no first use." That undue sensitivity was shown in the ill-judged preemptive assault that former Secretary of State Alexander Haig launched against the idea in a speech delivered on April 6, 1982.[2] Mr. Haig was endeavoring to discredit in advance an article that was about to appear in *Foreign Affairs*

1. John M. Goshko, "Soviet Chief Renounces First Use of A-Weapons," *The Washington Post*, June 16, 1982, p. 1.

2. "Haig's Speech on American Nuclear Strategy and the Role of Arms Control," *The New York Times*, April 7, 1982, p. A-8.

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written by four former government officials: McGeorge Bundy, George F. Kennan, Robert S. McNamara, and Gerard Smith.[3] Those four authors urged a "new and widespread consideration of the policy" of no first use of nuclear weapons.

The timing of the *Foreign Affairs* article could hardly have been less fortunate. The administration had been chivvied by pressure from some of its NATO-European allies into entering the political theater of negotiations over intermediate-range nuclear forces (INF) in Europe late in 1981, and had seized the suitably high ground of the "zero option" as a basis for laying claim to arms control virtue. However, by early April 1982, nuclear protest had ceased to be exclusively a political embarassment in only Western Europe; it appeared in a very well organized way in the United States also. The administration feared for the fate of its military modernization program and for the strength of its arms control bargaining hand as Soviet officials observed and encouraged round one of the "Ground Zero" consciousness raising (concerning the dangers of nuclear war) campaign,[5] and as political opportunists as well as sincere, if misguided, citizens propagandized energetically for a nuclear freeze.[6]

The Reagan administration was struggling to hold its NATO partners to their contingent commitment, as a NATO-wide endeavor, to permit deployment of ground-launched cruise missiles (GLCMs) and *Pershing II* ballistic missiles in Western Europe, an important aspect of that struggle being the U.S. high ground arms control position of the "zero option."[7] The last thing that NATO needed in the spring of 1982 was fundamental questioning of the wisdom in NATO's strategy by four senior public figures who could command international attention. An administration battered by charges that it was unduly casual about the dangers of nuclear war; by claims from the left and center of the political

3. "Nuclear Weapons and the Atlantic Alliance," *Foreign Affairs*, Vol. 60, No. 4 (Spring 1982), pp. 753-768.

4. *Ibid.*, p. 767.

5. See "Ground Zero," *Nuclear War: What's In It For You?* (New York: Pocket Books, 1982).

6. See Edward M. Kennedy and Mark O. Hatfield, *Freeze! How You Can Help Prevent Nuclear War* (New York: Bantam, 1982).

7. In December 1979 NATO, ill advisedly, adopted the so-called "dual track" policy of preparing to deploy new long-range theater nuclear forces, while, at the same time, pursuing negotiations with the Soviet Union to constrain deployment of this class of weapons. This had the effect of inviting the Soviet government to participate very actively in the intra-alliance politics of nuclear modernization.

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spectrum that it was not really serious about arms control (the president did not announce his readiness to reopen strategic arms negotiations until May 9, 1982); and by criticism from all sides to the effect that a coherent strategic policy story was not being advanced in support of the weapons program, was not an administration likely to respond coolly to assault from a new direction.[8]

What Mr. Haig did on April 6, 1982, was, inadvertently, to advertise and dignify a poor idea that in reality lacked a political constituency of any importance either in Europe or in the United States. In this article it will be argued that NATO should not adopt a nuclear policy of "no first use." "No first use" is not an idea that is bereft of all merit, political or military. Indeed, the ill-advisability of a NATO declaratory stance of "no first use" can only be presented judiciously if the more persuasive of the arguments in its favor are considered fairly. The potential for political damage to the alliance that lurks in the wings of "no first use" discussion is so considerable that it is vital that the full panoply of considerations be weighed by all sides of the debate.

NATO's Nuclear Strategy

As a former U.S. ambassador to NATO, Harlan Cleveland, wrote many years ago, a trans-Atlantic bargain defines the outer boundary of what is politically permissible by way of adjusting NATO's defense posture and strategy.[9] That bargain has the following terms: In return for the nuclear guarantee extended by the United States, NATO-European countries will contribute enough to the common defense so as to assuage American domestic suspicions to the effect that the allies are enjoying if not a free, at least a relatively cheap ride for their security. Much of the current debate over NATO strategy, nuclear and conventional, appears to be unhealthily innocent of appreciation of the bargain to which Harlan Cleveland referred.

Some of the reasoning advanced in support of NATO adopting a declaratory policy of "no first use" of nuclear weapons has indeed pointed to real dilemmas, illogicalities, and weaknesses in current NATO policy. That much should be conceded. However,

8. On the nuclear policy troubles of the Reagan administration, see Colin S. Gray, " 'Dangerous to Your Health': The Debate Over Nuclear Strategy and War," *Orbis*, Vol. 26, No. 3 (Fall 1982), pp. 327-349.

9. Harlan Cleveland, *NATO: The Trans-Atlantic Bargain* (New York: Harper and Row, 1970).

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real though the problems are for NATO, it is suggested here that "no first use" is not the answer.

It is worth recalling the fact that the use of nuclear weapons in Europe has been studied and debated for more than thirty years. While one should retain an open mind as to desirable changes in policy as military technology and political and economic conditions change, the enduring character of the nuclear weapons debate suggests the strong probability that NATO's policy dilemmas and difficulties stem rather more from the structural realm of lasting geopolitical factors, than they do from folly in high places.

The authoritative concept pervading NATO's defense posture remains that of flexible response. Flexible response was adopted officially by the alliance in 1967 in the document MC-14/3. That document envisages a seamless web of deterrent effect influencing the mind of a potential aggressor. It encompasses the idea that strong conventional forces should guarantee to the Soviet Union that a *coup de main* with more than the most modest of objectives in central or northern Europe is not feasible. Moreover, the strong conventional defenses guarantee a very large war, with unpredictable consequences. The large conventional war should increase the expectation that first battlefield, and then theater, nuclear weapons would be employed, which, in their turn, particularly if they engage targets within the boundary of the European U.S.S.R., should greatly increase the prospects that the war would come to embrace the homelands of both superpowers.[10]

This grand design, of a powder trail deliberately laid from the inter-German border to the high plains of the United States, offers full doctrinal satisfaction to none. Its fragilities are more pronounced today, as the central strategic nuclear balance has shifted from a condition of marginal, or essential (to have resort to a useful, if vague, term), U.S. superiority in the mid to late 1960s, to essential Soviet superiority in the early 1980s. Nonetheless, with its problems admitted, flexible response does meet the most vital political tests imposed by a multinational alliance comprising a wide range of actual, or potential, conflicting interests. The central truth which narrowly militarily focused policy advocates tend to ignore, or fail to understand, is that NATO's European-deployed forces have never been intended physically to defend

10. The "spirit" of NATO's defense concept of flexible response is admirably conveyed in Kenneth Hunt, *The Alliance and Europe*, Part 2: *Defense With Fewer Men*, Adelphi Paper No. 98 (London: International Institute for Strategic Studies, Summer 1973).

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Europe. Hence, much of the recurring debate concerning whether this class of technology or that strategy would serve to deny Soviet forces a plausible plan for intervention or conquest is really beside the point. Politicians cannot admit to this in public, but NATO-Europeans do not want to see local defenses deployed that would stand a reasonable prospect of containing and repelling a Soviet invasion. Whether or not that view is sensible is a valid question to pose, but it does remain a reality today. NATO-Europe wants to prevent war in Europe, of any character, and it believes that its security would suffer a net diminution were a far more robust local (conventional or nuclear) war-fighting capability to be deployed.

A truly robust-seeming non-nuclear defense for Western Europe would, in European perspective, threaten the vital alliance principle of equality of risk. In the same perspective it probably would harm the stability of deterrence by holding out to Soviet political leaders a marginally more plausible prospect of the possibility of a campaign that would not engage the superpower homelands. American critics of NATO strategy have long noticed the extreme reluctance of NATO-European governments to consider nuclear weapon employment options other than in the context of a managed process of escalation for the restoration of deterrence. What those critics have missed is a scarcely smaller NATO-European reluctance to pursue defense schemes that might markedly improve the prospects of NATO effecting a successful non-nuclear defense. As West German politicians and generals will say privately, though not publicly, a credible conventional capability for NATO-Europe (in the first instance, of West Germany) is really no more acceptable than is a credible nuclear defense.

The present situation is not a happy one. The security of Western Europe rests, ultimately, upon the willingness of an American president to risk the American homeland in order to seek to restore deterrence and reverse a rapidly unfolding local military disaster. In support of this premise, which is implicit in MC-14/3, is the deployment of some 300,000 military personnel (plus dependents) in Europe; the objectively vital nature of the U.S. interest in denying Western Europe to the Soviet *imperium*; and considerations of U.S. honor and reputation. Contrary to the argument that NATO and U.S. policy with respect to the defense of Europe is a bluff, this author believes that neither the alliance as a whole, nor the United States, is bluffing in the public architecture of its deterrent strategy. But critics of many doctrinal

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persuasions are correct in pointing to the possibility, even probability, that current policy, if ever tested under fire, would lead to a disaster of limitless proportions. The prospect that this disaster would be of a bilateral character is, of course, the basis of the deterrence thinking of the alliance.

The Bad News

The bad news is that critics are correct in saying that NATO does not have a credible conventional capability; does not have a theory of how it would employ battlefield and theater nuclear weapons in a way that would make net military sense (and would be politically acceptable to the West German government); and does not have on hand, to redress the theater imbalance, an American strategic nuclear capability for extended deterrence which enjoys unambiguous credibility. All of this must be conceded. This author believes, with many critics of NATO defense policy, that across-the-board improvements in military capability are highly desirable. However, current problems, which to a noteworthy degree are endemic in the geopolitics of the Western Alliance, are not so severe as to require a radical shift of defense policy course, either in a declaratory sense, or by way of operational planning.

The somewhat less bad news is that NATO's conventional defenses, while far short of immaculate, are certainly adequate for their basic mission, which, to repeat, is to guarantee a very large war in the event of a Soviet assault westward, and hence to raise very substantial Soviet fears of escalation. Also, although NATO does not have an agreed doctrine for the employment of theater nuclear forces, given the role of those forces as a bridge linking the European battlefield and the superpower homelands, it is not self-evident that the absence of a doctrine should be seen as a fatal weakness. It is worth mentioning that the more strident critics of NATO's current defense plans, and particularly those who urge upon NATO the necessity or feasibility of a non-nuclear defense, essentially "solve" tactical nuclear dilemmas by ignoring them. This author has long believed that from a military, and hence deterrent, point of view, NATO should plan to employ nuclear weapons very early and in sufficient numbers so as to promote fatal disruption of a Warsaw Pact attack before it could properly roll much beyond its starting lines.[11] However, that argument is po-

11. See Colin S. Gray, *Defending NATO-Europe: Forward Defense and Nuclear Strategy*, DNA 4567F (Washington, D.C.: Defense Nuclear Agency, November 1977).

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litically untenable within the alliance, regardless of its military merits. Given that NATO cannot reconcile the national interests of its members in a detailed doctrine for operational nuclear employment, the current compromise and ambiguity simply reflect the political facts of life. NATO should not be criticized for not effecting the impossible.

Finally, the credibility of extended deterrence is not a matter of all or nothing. Objectively speaking, the United States should not be able credibly to threaten to intervene with her strategic nuclear forces to turn the tide of a theater conflict in the 1980s. Today, the United States cannot escalate from a theater war to a higher level of violence in expectation, or even reasonable hope, of securing an improved outcome to a war. But the Soviet Union would have some good reasons to suspect that an American president threatening such an expansion of a conflict might not be bluffing. Hundreds of thousands of Americans would be engaged in a full-scale war in Europe, and, as careful students of power politics, Soviet leaders would know, and would expect an American president to know, that the stakes of a conflict in Europe really would amount to global hegemony. If the United States lost in Western Europe, then the Middle East, Africa, the Gulf region, and all of East Asia inevitably would fall within a newly expanded Soviet empire. The United States would remain sufficiently powerful to defend herself, but she would be denied access to Europe, Asia, and Africa. This, of course, presumes that the Soviet Union permits the United States the luxury of deciding whether or not to attempt to extend a European conflict. It is as likely as not that during the course of a very large war in the European theater, the Soviet Union, confounding the escalation sequence and reasoning most familiar in the West, would strike a massive preventive or preemptive blow against American strategic nuclear forces and their command, control, and communications.

Nothing could be further from the truth than to suggest, as Lawrence Freedman does, that "Improved conventional forces could compensate for weakness in the nuclear component of flexible response, but the reverse is not true."[12]

As competent campaign-minded defense planners whose eyes always are focused upon the problems and requirements of general war, Soviet military leaders are most unlikely ever to recommend massive military action against NATO in the European

12. "NATO Myths," *Foreign Policy*, No. 45 (Winter 1981–82), p. 53.

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theater unless they have a noteworthy measure of "splendid superiority" with respect to central strategic forces.[13] They would lack adequate "top cover" otherwise and would be recommending action in the absence of a comprehensive theory of victory. Mr. Freedman's belief in the efficacy of conventional substitution for erstwhile nuclear missions is wrong in logical and practical terms in several major respects. First, it ignores the Soviet incentive to engage in nuclear escalation to resolve problems at the conventional level of combat. A Soviet Union willing to invade Western Europe would not be a Soviet Union likely to hestitate to have resort to nuclear weapons to maintain the planned timetable of its advance. Second, the stronger NATO's conventional defenses, the stronger the Soviet incentive is to initiate nuclear employment early in the conflict. Third, only within narrow limits could nuclear forces compensate for conventional deficiencies, but there is no way in which conventional forces can compensate for nuclear deficiencies. If the Soviet Union could secure useful or decisive net advantage through nuclear escalation, the war would be lost for the West.

The Flexible Response

It is easy to be misunderstood. This author is not arguing for the starvation of NATO's conventional, relative to its nuclear, capability. It so happens that largely for nonstrategic political reasons of intra-alliance peacetime accord (or tolerable discord), NATO has chosen an overarching defense concept that does make deterrent and military sense. Proponents of a heavy conventional emphasis in NATO's defense posture should be reminded that the alliance has twice rejected such an orientation already: in the early 1950s, in the effective repudiation of the "Lisbon Goals" for conventional rearmament and mobilization readiness, and again in the early 1960s. Two of the authors of the *Foreign Affairs* article that urges reconsideration of a declaratory stance of "no-first use," McGeorge Bundy and Robert McNamara, appear to have learned relatively little from their experience as very senior members of the Kennedy and Johnson administrations. Robert McNamara's Pentagon sought to persuade its NATO allies in the early and mid-1960s to adopt a policy of flexible response, which

13. I have derived considerable benefit from reading a recent short paper by Fritz Ermath, "Soviet Assessment of the Strategic Nuclear Balance: The Overall Strategic and Political Context," unpublished, July 1982.

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translated as a requirement that NATO should never be in a condition where it was unable to cope with conventional aggression by conventional means alone. This definition of "flexible response" was unacceptable to NATO-Europe in the 1960s (indeed, French displeasure with the character and stridency of American ideas was expressed by her leaving the military organization of NATO in 1966), and there is no reason to believe it will prove any more acceptable in the 1980s. By way of summary, NATO-Europe, while willing, and indeed compelled, to humor many American military doctrinal preferences, is not prepared to endorse a NATO defense concept that requires the alliance to be able to fight and win a conflict confined to Western Europe, whether that conflict be nuclear or non-nuclear.

There is a conflict of national interest between the United States and her allies in Europe which no designer of alliance defense doctrine can afford to ignore.[14] The United States, while endorsing the idea of the deterrent value of there being close linkage between NATO's Central Front and ICBMs on the high plains of the American homeland, wishes to develop and sustain at least the possibility that a war which begins in Europe would remain confined to Europe. By way of contrast, NATO-European countries appreciate that sufficient local denial capability must be maintained so as to render escalation credible (or not incredible), and so as to satisfy American domestic political requirements, but they want a relatively short fuse to connect the local battle with U.S. central strategic forces. In other words, NATO-Europe favors a planned deficiency in locally deployed forces such that the trans-Atlantic linkage, for the sharing of risks, is clear and unmistakable.

European politicians, like prudent people everywhere, know that war is a very uncertain enterprise. Every few years the intellectually turbulent American defense community produces a new or refurbished theory for the improved defense of Europe. Too often, American defense intellectuals and policy-makers alike fail to realize not only that their NATO-European audience is skeptical of the promised benefits of, say, mobile defense (to cite but the latest doctrinal panacea), but that it would not endorse the new concept even if it believed it to hold great military promise. In European perspective, rightly or wrongly, the best guarantee of peace

14. See Colin S. Gray, "Theater Nuclear Weapons: Doctrines and Postures," *World Politics*, Vol. XXVIII, No. 2 (January 1976), pp. 300–314.

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and stability is a highly visible American presence in and commitment to the defense of Europe. Schemes intended to improve dramatically NATO's in-theater ability to repel invasion, are perceived as being potentially harmfully erosive of the trans-Atlantic nexus.

'No First Use'?

Virtually the entire community of NATO-oriented defense analysts and commentators, European and American, appears to be agreed that it would be desirable were NATO to be able to de-emphasize the role of nuclear weapons in its defense planning. Notwithstanding the recurring popularity of nuclear deemphasis, it is rare for public figures, or even for scholars, to go so far as to suggest an explicit NATO declaratory stance of "no first use." Many people otherwise tempted to advocate "no first use" have recognized the political damage that such a proposal could wreak if advanced formally as a U.S. preference. "No first use," if it is anything more than a declaratory flourish intended to appease popular antinuclear sentiment, cannot help meaning that the United States would prefer, *in extremis*, that its European allies be overrun by Soviet armies rather than that the risks attendant upon firing even a single nuclear weapon should be run. In the event, though not as declared policy in peacetime (when it would weaken deterrence by reducing Soviet uncertainties), NATO-Europe might well prefer conventional defeat to being defended by battlefield and theater nuclear weapons.[15] In terms of intra-alliance politics, it clearly would be less divisive if pressure for a "no first use" stance were to emanate from Bonn than from Washington. In that case however, many voices would be raised in Congress saying that a NATO-Europe so unwilling to run nuclear risks even on its own behalf, is a NATO-Europe so greatly susceptible to nuclear intimidation that it must be viewed as a very unreliable group of partners in the event of a future military crisis.

Critics of NATO's flexible response policy, with its first use connotations, have noted with much good reason that flexible response *à la* MC-14/3, to be credible, let alone operationally interesting to a NATO alliance in military distress, requires a measure of theater and strategic nuclear superiority that has long since

15. For a grim prediction of the character of a nuclear battlefield, see Arthur S. Collins, Jr., "Tactical Nuclear Warfare and NATO: Viable Strategy or Dead End?" *NATO's Fifteen Nations*, Vol. 22, No. 3 (June-July 1976), pp. 71-87.

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vanished.[16] In short, NATO is clinging to the policy idea that nuclear threat and execution can substitute for conventional weakness, even though the material basis for Western escalation dominance no longer obtains. In addition, it is argued, the prominent role of nuclear threat in NATO's deterrence story is probably more frightening to NATO-Europe than it is to the Soviet Union. The necessity for nuclear threat and use in NATO's defense planning may well promote uncertainties in Soviet minds that are healthy for the stability of deterrence, but also they carry promise of promoting policies of accommodation among NATO-Europeans. In the words of Fred Iklé:

> The more firmly NATO leaders have expected that a conventional war in Europe would develop into a nuclear war, the more anxious they would be to terminate the fighting if a conventional war actually broke out. Every day, every hour during which the conventional campaigns were being fought would seem to prolong the risk of imminent nuclear war.[17]

Mr. Iklé is correct. Unfortunately Mr. Iklé and others are not correct when they suggest that NATO can and should look to a very considerable strengthening of its conventional forces in order noticeably to alleviate its nuclear dilemma. The dilemma lies in the fact that the alliance depends critically for its security upon a weapon that it does not know how to employ in a controlled manner at bearable cost, given the unfortunate, though now long-standing, complication that nuclear conflict would be bilateral. NATO-Europe prefers to rely upon a deterrence system that does not downgrade the uncertainties and risks of nuclear threat, even though it cannot face, let alone talk very honestly in public about, the military implications of the structure of the threat that it has chosen.

Critics of NATO's nuclear "first use" doctrine are correct in noting that the doctrine has tended to function as a crutch for conventional weakness, as a generally inexplicit alibi for an absence of determination to build robust non-nuclear forces, and as a serious inhibitor even of rational planning for nuclear forces themselves. If conventional defenses can be trumped, and perhaps trumped easily, by nuclear use, why waste resources on conven-

16. This point is forcefully argued in Fred Charles Iklé, "NATO's 'First Nuclear Use': A Deepening Trap?" *Strategic Review*, Vol. IX, No. 1 (Winter 1980), pp. 18–23.

17. *Ibid.*, p. 20.

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tional forces that cannot affect a campaign outcome beyond their initial roles of denying easy access to territory, and of compelling force concentrations (necessary to attempt breakthroughs) which provide appropriate targets for nuclear weapons? Also, if there is to be early resort to nuclear weapons in the theater by NATO, with a central exchange following rapidly thereafter, there is little point in devoting time, energy, and resources to ensuring the survivability of local nuclear forces.

This author is strongly critical of NATO's current and planned nuclear force posture. In addition, he believes that NATO's nonnuclear forces can and should be strengthened. However, he does not believe that NATO's "forward defense" strategy is mistaken. The promise of a maneuver strategy, or mobile defense, as offered by such analysts as Steven Canby, Edward Luttwak, and William Lind, almost certainly is illusory.[18] NATO forces lack the territorial depth for maneuver, they lack the integrity and cohesion of command needed, and, as a general rule, they lack the necessary skills.

Unexciting though it is to record this verdict, NATO has a defense concept in flexible response which can be rescued from dangerous obsolescence by the appropriate modernization of forces at all levels. It is militarily unsound and politically not viable for the alliance to pursue seriously the prospect of changing radically the structure of its deterrence posture. NATO can, and should, redeploy and reequip its forces so as to offer Soviet planners a tougher defense crust through which they would have to gnaw. But, it is chimerical to aspire to achieve a successful all-conventional defense of Western Europe. Soviet mobilization potential for land combat is such that they will always be able to win a conventional war in Europe, if not in days or weeks, then in months or years.[19] The Soviet empire may betray internal fissures under the pressure

18. A useful review of the maneuver, or mobile defense, school of thinking is John J. Mearsheimer, "Maneuver, Mobile Defense, and the NATO Central Front," *International Security*, Vol. 6, No. 3 (Winter 1981–82), pp. 104–122. However, *en passant*, the critics of forward defense do offer many telling criticisms of current NATO military practices.

19. Assessment of the military balance in Europe has become a minor industry. Particularly useful are James Blaker and Andrew Hamilton, "Assessing Military Balances: The NATO Example," in John F. Reichart and Steven R. Stern, eds., *American Defense Policy*, fifth edition (Baltimore: Johns Hopkins University Press, 1982), pp. 333–350; and Robert Lucas Fischer, *Defending the Central Front: The Balance of Forces*, Adelphi Paper No. 127 (London: International Institute for Strategic Studies, Autumn 1976). For a recent "bean count," see NATO, *NATO and the Warsaw Pact: Force Comparisons*, 1982.

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of a long campaign, but NATO cannot assume that these fissures would have a decisive effect upon Soviet ability or willingness to prolong the struggle.[20]

Conflict in Europe must always be conducted in the shadow of nuclear weapons, no matter what NATO's declaratory policy may be. As Bernard Brodie and Thomas Schelling argued in the early and mid-1960s,[21] in fashionable opposition to the conventional deemphasis orthodoxy of that time, the Soviet Union cannot possibly believe that it would be permitted to crash from the inter-German boundary through to the Channel Coast, against a very heavily nuclear-armed enemy, without triggering nuclear employment by NATO (or the U.S., or France, or Great Britain, acting independently). Such a prospect is so unreasonable that almost certainly it is dismissed by Soviet planners. This is not to deny that the Soviet Union may well hope to profit from a delay in the onset of a nuclear phase to hostilities,[22] but that is quite another matter. Brodie suggested that since nuclear threat is ineradicable from the East-West military confrontation in Europe, it would be foolish for NATO to seek to minimize whatever deterrent benefit flows from that fact.

The Case in Favor

In their recent *Foreign Affairs* article, McGeorge Bundy and his three collaborators specified six arguments which, they claim, support the case for deliberate movement by NATO towards a "no first use" stance. In fairly summary fashion these are discussed below: much of the pertinent argument has been advanced already.

(1) "The first possible advantage of a policy of no-first-use is in the management of the nuclear deterrent forces that would still be necessary. Once we escape from the need to plan for a first use that is credible, we can escape also from many of the complex arguments that have led to assertions that all kinds of new nuclear capabilities are necessary to create or restore

20. See Steven F. Kime, "Warsaw Pact: Juggernaut or Paper Tiger?" *Air Force Magazine*, Vol. 65, No. 6 (June 1982), pp. 67–69.

21. Bernard Brodie, *Escalation and the Nuclear Option* (Princeton: Princeton University Press, 1966); and Thomas C. Schelling, "Nuclears, NATO and the 'New Strategy,' " in Henry Kissinger, ed., *Problems of National Strategy: A Book of Readings* (New York: Praeger, 1965), pp. 175–177.

22. See Joseph D. Douglass, *Soviet Military Strategy in Europe* (New York: Pergamon, 1982).

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a capability for something called 'escalation dominance'—a capability to fight and 'win' a nuclear war at any level.''[23]

Comment: NATO's nuclear ''doctrine'' today, to stretch terminology, merely accommodates the possibility, and asserts the legitimacy, of first use of nuclear weapons. That doctrine does not require or even on balance anticipate first use by NATO. Prominent among the many functions of NATO's nuclear posture today is the duty to help dissuade nuclear use by the Soviet Union. Hence, there is nowhere near a direct and absolute doctrinal opposition between ''no first use'' and flexible response. Given that NATO does place a heavy burden of possible second (and beyond) strike duties upon its nuclear forces, the strategic case for an assured second strike capability should be in no need of the additional ammunition that might be provided by a ''no first use'' declaration.[24] McGeorge Bundy and his friends would have been closer to the mark had they argued that the absence of an agreed employment doctrine for tactical nuclear forces means an absence of doctrinal guidance—really of agreed and militarily justifiable requirements—for the modernization of NATO's nuclear arsenal. ''No first use,'' far from encouraging serious renewed endeavor to provide enduring survivability for NATO's nuclear forces, would more likely lead to those forces languishing in decreasing official interest.

(2) ''A posture of no-first-use should also go far to meet the understandable anxieties that underlie much of the new interest in nuclear disarmament, both in Europe and in our own country.''[25]

Comment: A ''no first use'' declaration by NATO likely would have negligible public relations value, because that particular piece of the high ground of nuclear disarmament rhetoric already has been occupied by the Soviet Union. Moreover, contrary to the expectations of Mr. Bundy and others, the political damage that ''no first use'' potentially could wreak in Western Europe—as a declaration lending itself to the interpretation that it expressed a U.S. determination to decouple—would have to be offset by a very considerable refurbishment of NATO's nuclear arsenal.

23. Bundy *et al.*, ''Nuclear Weapons and the Atlantic Alliance,'' pp. 763–764.

24. A particularly informative discussion of the state of NATO's theater nuclear forces is Robert A. Moore, ''Theatre Nuclear Forces: Thinking the Unthinkable'' *International Defense Review*, Vol. 14 (1981), pp. 401–408.

25. Bundy *et al.*, ''Nuclear Weapons . . .,'' p. 764.

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That, at least, is what should occur. Rather more likely is the eventuality specified in the comment on the first argument above: namely, that the nuclear force posture would languish as it was devalued doctrinally, and that the postural assurances West German and other European audiences would need to sustain their confidence in the alliance to offset the clear negative implications of "no first use" would not be forthcoming. Finally, Mr. Bundy and other sophisticates may understand that a "no first use" declaration could not be effected until NATO's non-nuclear defenses had been rendered far more robust than they are today, but that opinion at home and abroad to which reference was made has shown no enthusiasm for a notable measure of conventional rearmament. In the appropriate words of the title of a recent article in *The Economist*, "Do you sincerely want to be non-nuclear?"[26] Adequate sincerity, by *The Economist*'s calculations, would cost NATO countries a further 1 percent real increase per annum in defense expenditure over and above the 3 percent agreed to in 1978 (and widely honored in the breach thereafter). Much of the more strident antinuclear sentiment in NATO-Europe is not only antinuclear, it is generically antidefense. It is not sensible to adopt a militarily foolish, and really operationally meaningless, declaratory policy such as "no first use" in expectation of appeasing a body of opinion that is either ignorant of, or indifferent to, considerations of military balance.

(3) "An effective policy of no-first-use will also reduce the risk of conventional aggression in Europe."[27]

Comment: Given that the authors sensibly acknowledge that "no one on either side could guarantee beyond all possible doubt that if conventional warfare broke out on a large scale there would in fact be no use of nuclear weapons,"[28] it is difficult to understand what meaning should be ascribed to the important term "effective." NATO-Europeans may appear to be more resolute in their determination to resist aggression were nuclear use truly impossible. However, strategy and tactics serve national interests, not such an abstract "rule of the road" as "no first use" of nuclear weapons. No matter what NATO's public stance on nuclear use might be, NATO-Europe would fear nuclear employment. It must be admitted that Soviet leaders and planners may confidently

26. July 31, 1982, pp. 30–32.
27. Bundy *et al.*, "Nuclear Weapons . . .," p. 765.
28. *Ibid.*, p. 766.

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be expected to save us from our own folly—a NATO declaratory stance of "no first use" would influence Soviet intentions *vis à vis* nuclear use not at all. The Soviet Union knows that states behave as they believe best suits their interests at the time—regardless of peacetime declarations. In 1939 did anybody recall the Kellogg-Briand Pact of 1928, which had outlawed war? This third argument is wrong on all counts. NATO is most unlikely to augment its conventional forces notably, either prior to or succeeding a declaration of "no first use." NATO governments, like the Soviet government, would view such a declaration with total cynicism. The Soviet Union would not have to overcome much larger or more capable NATO conventional forces as a consequence of a "no first use" declaration. No NATO-European government capable of rational policy-making would choose to exchange the admittedly fragile and tenuous credibility of the flexible response concept—with which at least all parties, East and West, are long familiar (no small matter in the field of international stability)—for the vacuousness of a "no first use" declaration. First use of nuclear weapons may be incredible to many Western critics of NATO doctrine, but we do not know how Soviet leaders would assay that credibility were they approaching a decision to fight or not to fight in Europe. Since such a NATO declaration would have to weigh in the scales, if it did at all, on the side of lower risks and a greater freedom for Soviet military initiatives, it must be either neutral or of negative value for the stability of deterrence.

Public Relations

(4) "There is strong reason to believe that no-first-use can also help in our relations with the Soviet Union."[29]

Comment: Signing a mildly updated SALT II and permitting the sale of American made or licensed compressors for the Siberian gas pipeline also would "help in our relations with the Soviet Union." Even if they find it impolitic to say so in public, very often, NATO politicians know that the alliance must retain the contingent operational intention to use nuclear weapons first, for reason of the fundamental geopolitical asymmetries that divide the potentially hostile parties. NATO can resist a non-nuclear assault more or less effectively, with the trading of more or less space for time, but—notwithstanding Western mobilization potential—there is no way in which NATO could defeat, or even impose an indefinite

29. *Ibid.*, p. 766.

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stalemate upon, the Soviet Union in a conventional war in Europe. "No first use" thinking encourages the public to neglect the facts of geopolitics. It is very difficult to understand why a NATO declaration of "no first use," which logically should be preceded by a large measure of conventional rearmament and a degree of strengthening of nuclear forces (for possible second use), should "help in our relations with the Soviet Union."

Mr. Bundy and his colleagues claim that "(t)he existence of such a clearly declared common pledge would increase the cost and risk of any sudden use of nuclear weapons by either side and correspondingly reduce the political force of spoken or unspoken threats of such use."[30] This reasoning might be excused, perhaps even found to be admirable, in an undergraduate student, but it is sobering to find it advanced by four very experienced former officials. What the authors are saying is that a Soviet leadership would (not should, or might) deem the cost and risk (of what?) of first nuclear use, intended either to avert defeat or promote the prospect of military victory, increased by the very fact of the bilateral pledge. Given the stakes of such a conflict, and the prior fact of massive cross-border aggression, can these authors seriously suggest that the fact of a declaration of intent would have any operational significance whatsoever? Whether Soviet arms were successful or were defeated, the breaking of a "no first use" pledge would be a matter of supreme indifference in Moscow.

(5) "A posture and policy of no-first-use could help to open the path toward serious reduction of nuclear armaments on both sides."[31]

Comment: There are several reasons why both sides, one day, might wish to reduce nuclear armaments in, and bearing upon, Europe. However, declarations—and even genuinely operational policies—of "no first use" are not among those reasons. A robust second-use policy by NATO requires an impressive scale and diversity of theater-nuclear assets. Moreover, as noted already, the political concomitant of a "no first use" pledge by NATO should be a strengthening of the nuclear arsenal, including those elements of the arsenal which are most visible and least survivable. Notwithstanding the contemporary difficulties attending the planned deployment of GLCM and *Pershing II* in Western Europe, traditionally it has been the case that NATO-Europeans

30. *Ibid.*, pp. 766–767.
31. *Ibid.*, p. 767.

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like to be able to "kick the tires" of U.S. nuclear weapon delivery systems in order to reassure themselves that the U.S. nuclear guarantee is a reality. Promises in the form of submarines, for example, can sail away all too easily.

(6) "Finally and in sum, we think a policy of no-first-use, especially if shared with the Soviet Union, would bring new hope to everyone in every country whose life is shadowed by the hideous possibility of a third great twentieth-century conflict in Europe—conventional or nuclear. It seems timely and even urgent to begin the careful study of a policy that could help to sweep this threat clear off the board of international affairs."[32]

Comment: Unfortunately, a "no first use" declaration would have authority only until a superpower judged it to be strongly in its interest to break it. "No first use," as a policy idea, helps not "to sweep this threat clean off the board of international affairs," but rather to foster the illusion that there is some escape from the central dilemma of nuclear deterrence—that dilemma being that the ultimate guarantee of Western security is the threat of a nuclear employment that Western governments are motivated extremely highly never to exercise. As Theodore Draper has remarked: "The only cure-all for nuclear war is the complete and absolute abolition of nuclear weapons everywhere and for all time."[33]

"No first use" will not blind the hard-nosed men in the Kremlin to the realities of power politics, but such a pledge has no little capacity to encourage mischievous illusions in Western democracies. Great powers will use nuclear weapons if the anticipated net advantage is judged to be sufficiently great. Well designed, complementary NATO forces, conventional and nuclear, backstopped by invulnerable U.S. strategic forces that can threaten convincingly the more important coercive instruments of the Soviet state, should offer strong encouragement for Soviet leaders never to judge that the first use of nuclear weapons would be in their interest. Above all else, to point to a familiar European theme, NATO's overriding duty to its citizens is not to prevent nuclear war, it is to prevent war *per se* in Europe. If major conflict ever is joined in Europe, the fine edifice of Western strategic theory, with its distinctions between levels of conflict and its focus

32. *Ibid.*, p. 767.

33. "How Not to Think About Nuclear War," *The New York Times Review of Books*, July 15, 1982, p. 42.

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upon risk manipulation and escalation control and the like, very probably will fall early victim to the dynamic and inherent logic of military events.

The Fallacy of the Conventional Solution

Nuclear weapons are an inconvenience for the planner of land, tactical air, and sea forces. Given the total absence of historical data on bilateral nuclear use, the nuclear factor tends to loom almost as a wild card, threatening to upset the analysis of the kinds of combat engagement that the planner thinks he understands. Of course, nuclear weapons are by no means the only wild card that may upset calculations—one also has to consider such variables as weather, quality of leadership, morale and steadiness of soldiers, and the stability of the home front. In addition, it can be easy to forget that the high-technology armies of NATO and the Warsaw Pact, in their non-nuclear aspects, are near totally untested instruments. Their technology has not been field-tested realistically over terrain or in the weather conditions prevalent in Central and Western Europe, and very few of their soldiers have heard shots fired in anger. Indeed, so many are the factors that should be considered in any attempt to answer the deceptively simple question, "How well would NATO fare in the event of a Pact invasion?," that no authoritative answer is possible.

Proponents of a nuclear deemphasis for NATO tend to argue that Soviet military strength is exaggerated, and they then proceed to offer their preferred prescription that will enable NATO to hold the foe without having recourse to nuclear weapons. Not only is the Soviet Union, typically, judged conveniently to be deterred from initiating nuclear employment, but the Soviet threat is fashioned, somewhat roughly, in a form that renders it susceptible to the preferred attributes of NATO's non-nuclear defenses.

The absence of persuasive looking historical data directly applicable to the conflict in question,[34] the horrific novelty of the nuclear shadow over the prospective battlefield, and the awesome complexity of the subject mean that there are no true experts on

34. John Keegan is probably correct, and he is in a company of growing size, in maintaining that the closest historical parallel available to the task faced by NATO on the Central Front is the evidence of the performance of Army Group B of the *Wehrmacht* in its endeavors to contain the Normandy beachhead in June, July, and August 1944. See John Keegan, *Six Armies in Normandy* (New York: Viking, 1982), particularly the Epilogue.

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future military conflict in Europe. That fact admitted, policymakers, unlike scholars and editorial writers, are required to make guesses—their ignorance notwithstanding. It is the view of this author that although NATO's military preparations are deficient in many details, the basic architecture of policy is sound. Forward defense to contest nearly every foot of West German territory is a condition for West German loyalty to the alliance. But, forward defense happens also to offer the best prospect for deterrence and denial, notwithstanding the denunciations offered by recent advocates of strategic maneuver.

NATO does not have a first strike strategy for nuclear employment, but it does insist prudently upon the necessity for retaining the option of having first resort to nuclear weapons in case of dire need. This author wishes that NATO as a whole had the political will and courage to declare a willingness to have relatively early resort to nuclear use for the purpose of fatally disrupting a Pact attack. He suspects that escalation to central strategic employment is virtually guaranteed, because NATO would use nuclear weapons in the theater too late and too lightly for them to have a truly decisive shock effect upon an enemy that, by that time, would likely be very deep into West Germany. Nonetheless, to cite the problems in the Western defenses at all levels suggests, to this author, the need for the alliance to perform better within the political framework of the compromise strategy of flexible response.

Improvements in the tactics and weapons of conventional warfare are greatly to be desired. But, if NATO permits itself to be out thought with respect to planning for conventional combat in a "nuclear scared" context, to planning for the transition from non-nuclear (and chemical) to nuclear combat, and to planning for the conduct simultaneously of conventional and nuclear combat, then it invites the prospect of being outfought. NATO politicians and planners should never forget that a Soviet Union sufficiently desperate or bold as to launch a massive invasion of Western Europe, prudently has to be assumed to be a Soviet Union that already has crossed the Rubicon with respect to its willingness to use nuclear weapons if need be.

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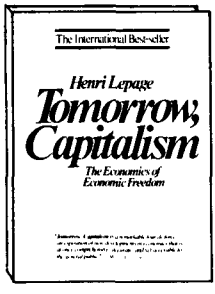

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Why People Riot

LOUIS BOLCE

On the sweltering evening of August 11, 1965, a routine drunken-driving arrest, in the Watts section of Los Angeles, touched off an outburst of lawlessness that radically changed the nature of racial violence in the United States.[1] The conflagration raged for six days, resulting in thirty-four deaths, thousands of personal injuries, and damages estimated at $40 million. An estimated 31,000 blacks participated in the disorder, cheered on by another 64,000 to 72,000 "close spectators." About 4,000 rioters were arrested.[2] For the next five years, rampages of looting and arson would explode across inner-city streets like fireballs in the night, depositing in the ashes and rubble losses of life and property unequaled since the Civil War. And every spring hence, with numbing familiarity, speculation about the threat of more "long-hot summers" would become a favorite pastime of pundits, politicians, and civil rights leaders.[3] Clearly, the mood of black America had changed radically. Why?

That the riots erupted on the heels of the most far-reaching civil-rights legislation enacted in the United States struck most white Americans as surprising, if not outright shocking. That most disorders did not occur in the South, the bastion of resistance, but instead erupted in states and cities generally known for their liberalism and progressive views on race, added to the sense of confusion. The mass public, at a loss for explanation, generally expressed anger and bewilderment at the escalation of black violence; these were not the feelings expressed in the articles and books by social scientists.

"Ghetto rioting," write social scientists Joe Feagin and Harlan

1. A technical version of this article can be found in "Uncertainty and the Black Urban Riots," paper presented at the Annual CUNY Political Science Conference, December 11, 1981.

2. David O. Sears and John B. McConahay, *The Politics of Violence* (Boston: Houghton Mifflin Company, 1973), pp. 9–13.

3. Some recent examples of riot speculation are found in Melinda Beck et al., "A Long Jobless Summer," *Newsweek*, May 31, 1982, pp. 28–29; Iver Peterson, "Young Seen Facing Dim Prospect on Summer Jobs," *New York Times*, June 5, 1982, p. 9; and Nicholas Pileggi, "A Long Smoldery Summer?" *New Yorker*, June 21, 1982, pp. 28–31.

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Hahn, "reflected more than a strong hope that the political system would respond peacefully and favorably to black needs and demands. Rather, rioting appeared more as a desperate and concerted effort to compel political authorities to change not only their policies but to force alterations in the process by which those decisions are made."[4] And the rioters? According to social scientists, they were "the cream of urban Negro youth in particular and urban citizens in general."[5] This view sees the riots as a legitimate form of political protest and explains the disorders as the black man's angry reply to a history of long-standing and long-ignored grievances, most notably his feelings of being treated unjustly by white people. This is the view that prevails in the social science literature and textbooks today and is the one that received the imprimatur of the Kerner Commission.[6]

I have a different view about the rioting. Explaining the riots as protests exaggerates the importance that political motives played in the riots, motivations belied by the paucity of demands and grievances put forth by the rioters[7] and by the objects of their wrath—mainly retail commercial establishments and liquor stores. This view underemphasizes the tendencies towards asocial behavior of inner-city slum dwellers[8] and does not adequately take into account the disorientation produced throughout the black community since the mid-1950s by the momentous change in government racial policies and the inconsistent and contradictory evolution in white racial attitudes. The riots can be better understood as lower-class rampages caused by a pervasive and intolerable

4. Joe R. Feagin and Harlan Hahn, *The Ghetto Revolts* (New York: MacMillan Publishing Company, 1973), p. 27.

5. See, for example, T. M. Tomlinson, "The Development of a Riot Ideology among Urban Negroes," *American Behavioral Scientist II* (March–April 1968), pp. 27–34; Sears and McConahay *op. cit*; Nathan Caplan, "The New Ghetto Man: A Review of Recent Empirical Studies," *Journal of Social Issues* 26 (1970) pp. 59–73; and Feagin and Hahn, *op. cit.*

6. Tomlinson *op. cit*; Sears and McConahay, *op. cit*; Caplan *op. cit*; Jerome Skolnick, *The Politics of Protest* (New York: Ballantine Books, 1969); Peter H. Rossi, ed., *Ghetto Revolts* (Chicago: Aldine Publishing Company, 1970); and National Advisory Commission on Civil Disorders, *Report of the National Advisory Commission on Civil Disorders* (Washington, D.C.: Government Printing Office, 1968).

7. Edward Banfield, *The Unheavenly City Revisited* (Boston: Little, Brown and Company, 1974), p. 220.

8. *Ibid.* Eleanor Pavenstedt, ed., *The Drifters: Children of Disorganized Lower-class Families* (Boston: Little, Brown and Company, 1967).

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sense of uncertainty that had been building for a decade in the inner cities across America.

Uncertainty and Violence

Uncertainty is any ambiguity in meaning, value, or expectation. It may vary in terms of intensity, duration, removability,[9] and importance of the thing about which we are in doubt (say the top-rated punk rock group as compared to our job tenure, self-worth, or physical safety, for example). It is frustrating to experience and most people hate it.[10] In its chronic form, uncertainty is characterized by a lack of constructive and realizable goals and appropriate methods for the attainment of goals. As it hinders the capacity for assessment, foresight, and anticipation, chronic uncertainty makes planning virtually impossible;[11] we do not know what we must do to get what we need and want. The person experiencing chronic uncertainty is thus a person who is chronically frustrated. He is also a person who is unable to control his impulses.[12] He is an insecure, unstable person prone to violence.

Everyone experiences uncertainty, and it is my belief that we feel it most intensely when we experience change. Change brings on the new, the different, the unfamiliar. Change requires us to adjust but offers no sure guide for action. That is why most people

9. Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957), p. 77.

10. Ivo K. Feierabend, Rosaling L. Feierabend and Rosaline Nesvold, "Social Change and Political Violence: Cross National Patterns," *The History of Violence in America*, eds., Hugh Davis Graham and Ted Robert Gurr (New York: Bantam Books, 1970), p. 607.

11. Pavenstedt *op. cit.*, p. 133 ff.

12. Reinforcement theory states that self-control involves delaying present gratification for a future reward. The expectation that our self-controlling behavior will result in this delayed reward buttresses our capacity to withstand present frustrations. Giving up "hanging out" and "getting high" everyday with the gang over at Betty Lou's, for example, does not seem so intolerable when considering that the long, tedious hours spent instead in school or at home studying might pay off in a decent and well-paying job after graduation. But when the worthwhileness of a future goal is uncertain vis-à-vis the gratification deferred, we lose our motivation for self-restraint. Everyone needs some sense of certainty (reinforcer) to motivate him to think about the future consequences of his actions. Without it, we become impetuous and our behavior impulsively destructive. See, for example, Frederick H. Kafner, "Self-Regulation, Research, Issues and Speculation," *Behavior Modification in Clinical Psychology*, eds., C. Neuringer and J. L. Michael (New York: Appelton, Century and Croft, 1970) and Elliot Liebow, *Tally's Corner* (Boston: Little, Brown and Company, 1967), pp. 67–68.

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fear it. In fact, even positive change can be a cause of great apprehension. According to Professor R. H. Rahe, getting married (a life change most would evaluate positively and as something freely chosen) causes roughly the same amount of stress as being fired from one's job. Even distinguishing oneself with some outstanding achievement produces stress—about as much as having one's mortgage foreclosed.[13] The point here is not that positive change is bad and should therefore be avoided, but that all change disorients and requires adaptation, *even* if it is positive and expected. When we experience it, we feel a foundation of our well-being threatened by the unfamiliar, and we do not immediately know what to do to relieve our distress. For people undergoing drastic change, especially change forced upon them, or a rapid succession of changes touching the full spectrum of their lives, the uncertainty is of course deeper, more pervasive, and longer lasting.[14]

It is my contention that the causes underlying the black urban riots can be traced to fluctuation and change in black experiences throughout the 1950s and 1960s, disruptive changes that destabilized black expectations, particularly those of the lower classes. These rapid and discordant patterns of change ran the gamut from their migration to the northern and midwestern industrial cities, through changing political, family, and employment experiences, to the inconsistent evolution in racial attitudes of whites and shifting self-perceptions of blacks. From any perspective, the fluctuations were massive and initiated an unsettled course for black America. Analysis of census and public opinion data demonstrates that uncertainty was the fundamental psychological characteristic of rioters, and that its origins can be traced to fluctuation and change in their social, political, and economic experiences. Before I display data on black perceptions and their relationship to riot participation, I will first present evidence documenting some of the destabilizing changes experienced by the black community.

Hardly anyone today argues that work and money are unimportant matters in people's lives. Job security and earning a decent living have always been incessant preoccupations of the American

13. R. H. Rahe, "Life Changes and Near-Future Illness Reports," *Emotions—Their Parameters and Measurement*, ed., L. Levi (New York: Raven, 1975).

14. Eric Hoffer, *The Ordeal of Change* (New York: Harper and Row, 1963), pp. 4–5; and Bernard N. Grofman and Edward Muller, "The Strange Case of Relative Gratification and the Potential for Political Violence: The V-Curve Hypothesis," *American Political Science Review* 67 (1973), pp. 514–539.

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people, and there is little evidence to indicate that they will not be dominant concerns in the future. Having a steady job allows one to pay the rent, to provide for a family, to accrue material objects. It allows one to organize one's life around a familiar, predictable routine. It allows one to *plan* for the future and indeed have one. For most, a life without stable employment is a frustrating one lacking structure and security.

The economic performance of black America throughout the 1950s and 1960s offers a case in point. Even the casual observer, from whatever perspective, would probably acknowledge that during this era, black economic progress was, at best, erratic with each long stride forward, offset by a step or two in retreat.

A glimpse of the erratic pattern of black economic progress can be seen from data comparing nonwhite unemployment rates between 1948 and 1972 with the unemployment rates of whites during this same period. (See Figure 1.) The data lead to two conclusions: unemployment hit nonwhites harder than whites for many years, and fluctuation in employment experiences hit nonwhites even harder. Popular opinion generally focuses our attention on the former—that since 1948, for example, the rate of black joblessness has been double the rates for whites. Job instability is usually overlooked or ignored. Both figures are important social indicators, but it is the pattern of employment experiences that most enlightens our understanding of the frustrated, insecure person prone to violence.[15]

Swings in America's economic activity and/or attachment to the work ethic affect nonwhites to a much greater extent than whites, shuffling nonwhites in and out of the job force at roughly double the rate for whites. Between 1950 and 1951, for example, nonwhite unemployment dropped 3.7 percent, down from 9 percent to 5.3 percent; white unemployment during the same period fell 1.8 percent. Adult nonwhite unemployment leaped 4.4 percent between 1953 and 1954, and 4.7 percent between 1958 and 1959; the increase in white joblessness for both two-year periods was 2.3 percent. This pattern continued on through the 1960s. The percentage of adult nonwhites looking for work but not finding it during the decade and a half from 1954 oscillated between 6.6

15. Michael Aiken, L. A. Ferman and H. L. Sheppard, *Economic Failure, Alienation and Extremism* (Ann Arbor: The University of Michigan Press, 1968), pp. 76-77.

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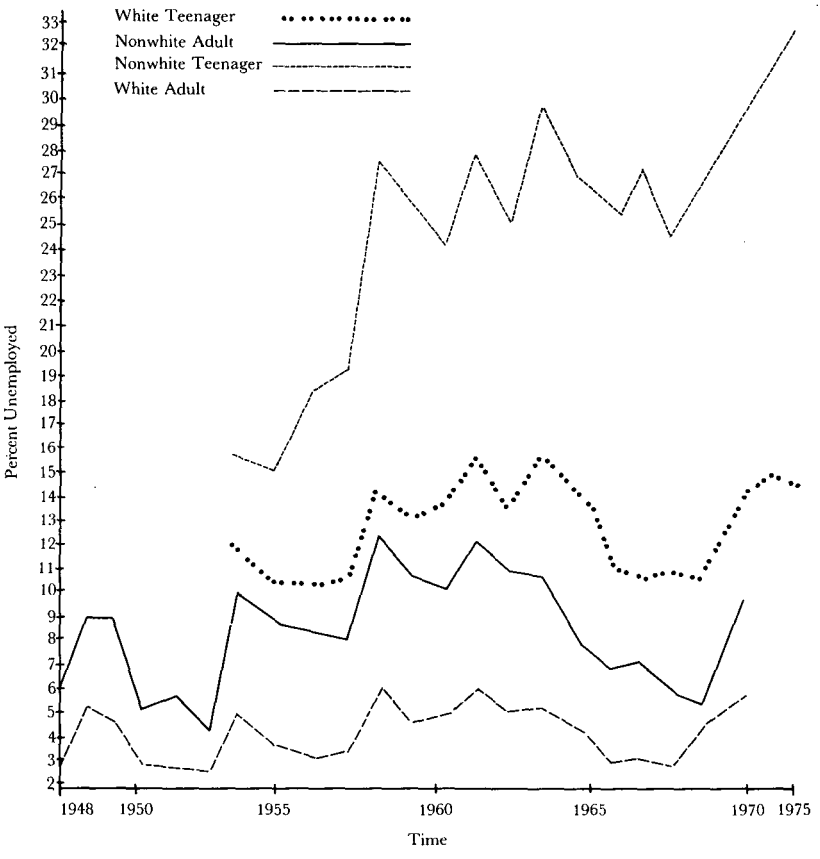
Figure One

Unemployment Rates of Nonwhite and White Adults and Teenagers



Source: Current Population Report Series P-23 N. 42, p. 52 and *Manpower Report of the President*, April 1974, p. 259.

percent and 12.6 percent, compared to the relatively modest fluctuation in the adult, white unemployment rate.

Job instability is even more striking in figures on unemployment rates for nonwhite teenagers, teenagers being important as they constitute the most riot-prone age group. As with the data on adults, the figure shows a declining, yet fluctuating, pattern in the rate of nonwhite, teenage unemployment from 1957 through the 1965–1968 riot era followed by a sharp upturn in unemployment

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thereafter.[16] From 1954, the joblessness rate for nonwhite youths seesawed convulsively between 15.8 and 33.5 percent, compared to the 10.2 to 15.5 percent fluctuation for white teenagers. Patterns of fluctuation and instability are apparent in many indicators describing black social and economic experiences during the 1950s and 1960s.

Black males, particularly in the lower class, for example, have experienced destabilizing economic fluctuation relative to black females. Throughout the period, when black females were making enormous strides in income relative to white females, black males saw little gain in their standing compared to white males. Indeed, in some areas black males were actually losing ground. Change in the economy was not just moving black males and females at a different pace, but thrusting them in opposite directions.[17] Some have characterized this trend as indicating a growing economic dependence of the black male on the black female and have called attention to its repercussions on the family life of lower class blacks. One effect is the disruption of traditional roles. Another is the collapse of the family as a nuclear unit with all the tragic ramifications that a disorganized unstable family setting means for the socialization of children.[18]

Desegregation and Black Upheaval

Probably the greatest cause of upheaval for the black American was fluctuation and change in society's attitudes toward him. The mid-1950s to the mid-1960s was a decade unprecedented in federal

16. Naturally these unemployment data are hardly consistent with either a J-Curve or absolute deprivation explanation of the riots. While feelings of deprivation served as aggravating factors, they were not sufficient to have caused the riots. Nonwhite unemployment, for example, fluctuated downward between 1961 and 1969, rather than sharply increasing as these theories would lead us to expect. Nonwhites were more likely to have jobs during the three-year riots period than for any other three-year period since 1963. Moreover, although nonwhites experienced a sharp increase in joblessness after 1968, this upturn in unemployment was not followed by an outbreak of rioting.

17. See, for example, Alan Batchelder, "Decline in the Relative Income of Negro Men Relative to Negro Women," *The Quarterly Journal of Economics* 78, 4 (November 1969), pp. 525–548.

18. Identity confusion, mental illness, truancy, promiscuity, delinquency, and alcohol and drug abuse are some of the more serious childhood pathologies often attributed to being reared in unstable broken homes. See, for example, Pavenstedt *op. cit.*, p. 231 ff; Daniel Patrick Moynihan, "Employment, Income and the Ordeal of the Negro Family," *Daedalus* (Fall 1965), pp. 745–770; and Banfield *op. cit.*, p. 83 ff.

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legislation and court action on his behalf. The 1954 landmark *Brown* decision initiating the beginning of the end of Jim Crow, the enforcement of *Brown* with federal troops three years later by President Eisenhower, the 1964 Civil Rights Acts and the 1965 Voting Rights Act were clearly momentous changes. Their aftershocks would ripple through the American social fabric for many years to come. The black person had at last achieved the status of citizen in the American political community. His political and legal rights were written into federal law, protected by the federal courts, and enforced by the federal government. His status as an accepted and respected member in the wider social community, however, was not as clear cut. This decade was also characterized by fluctuating and contradictory white attitudes toward blacks and policies created to help blacks. These were not small matters, considering the scholarly attention given to the detrimental effects of white actions and racial attitudes on the self-perceptions of black youngsters and adults.[19]

Perhaps no issue has, at once, been more of a cause of hope, apprehension, self-doubt, and bewilderment for the black American than the issue of integration. And probably no issue better reflects white vacillation and ambivalence in his attitudes toward blacks.[20] Since 1956, the Survey Research Center (SRC) at the University of Michigan has repeatedly sampled the opinions of the American public on the propriety of government intervention concerning school integration. This issue can be used as a rough barometer to gauge the drift in popular support for an active government role in promoting the integration of black and white school children. We can also use this as an indirect barometer of northern and southern white attitudes toward blacks and policies designed with the intent to advance their cause.

19. William H. Grier and Price Cobbs, *Black Rage* (New York: Basic Books, 1968), and David J. Armor, "Unwillingly to School," *Policy Review* 18 (Fall 1972), pp. 99-111.

20. According to public opinion polls carried out by the Survey Research Center at the University of Michigan, most whites when offered a choice between an integrated society, a segregated one, or "something in between," prefer "something in between." The percentage was 46 percent in 1964 and it has not budged since. The percentage favoring a desegrated society was 27 percent in 1964 and 31 percent in 1968. In contrast, seven out of ten blacks selected an integrated society as their preference in these surveys. For a discussion of white and black attitudes toward integration see, for example, C. Vann Woodward, *The Strange Career of Jim Crow* (New York: Oxford University Press, 1974).

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The data displayed in Figure 2 show a fluctuation cycle in white attitudes toward school integration, particularly among northern whites. Between 1956 and 1962, the percentage of northern whites supporting this policy swelled upward from 48 percent approving it in 1956, to 73 percent supporting it in 1962. This trend reversed in 1964 and fluctuated precipitously downward to 43 percent by 1968, the lowest point of northern white approval. Southern white attitudes toward school integration were noticeably less volatile, though decisively more negative. Unlike his counterpart in the South, whose racial beliefs were more deeply etched and resistant to change, the white northerner's racial attitudes vacillated more and reflected greater ambivalence, no doubt adding to the overall sense of uncertainty and frustration of the northern black.[21]

These are a few examples of some of the convulsive fluctuations experienced by black Americans during the 1950s and 1960s. While it is obvious that not every datum on blacks in the United States was examined, and that some of these unexamined data could show different patterns, the examples describing trends in economic progress, employment and family instability, changes in governmental racial policies, and vacillating white racial attitudes demonstrate that change was momentous, inconsistent, and touched virtually every aspect of their lives. The next section examines some of the psychological consequences of social and economic fluctuation, with particular attention given to their linkages to violence proneness.

Underlying the relationship between fluctuation, uncertainty, and violence is the assumption that a stable, consistent, and intelligible frame of reference is fundamental to our well-being. It is vital not only for making goal orientation possible, but also for creating a sense of predictability and certainty that helps to assure our sanity. Without a stable frame of reference, we can neither plan, assess, nor anticipate. Judgment gives way to impulse as an instigation to action. Environment is thus important because nearly every facet of it has a parallel counterpart in subjective life.[22] Our experiences at home, at work, with friends, or in the wider social milieu shape our perceptions of the world and of ourselves and, when reinforced over time, shape our expectations: the more

21. Murray Edelman, *Politics as Symbolic Action: Mass Arousal and Quiesence* (Chicago: Markham Publishing Company, 1972), p. 123.

22. Pavenstedt *op. cit.*, pp. 132–133 ff.

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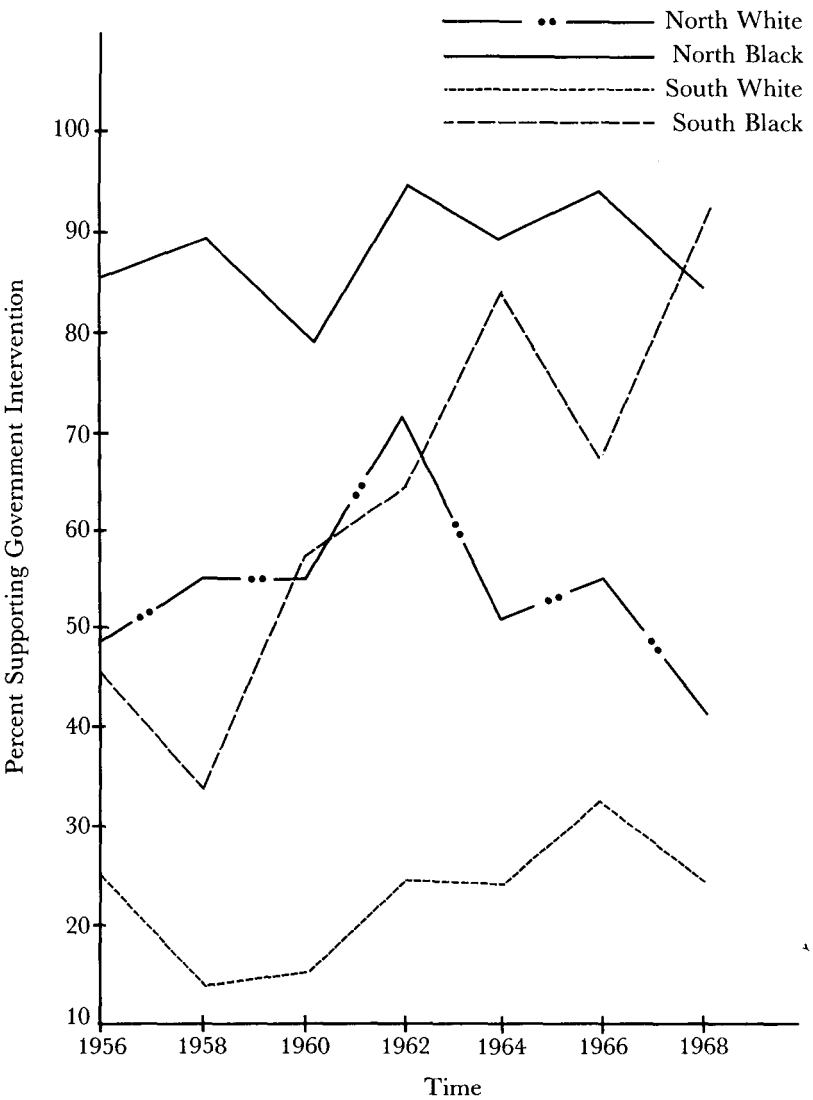
Figure Two

Support for Desegregation by Race and Region, 1956-1968.



Source: Computed from data collected in the 1956-1968 Center for Political Studies Election Surveys, University of Michigan.

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stable and predictable the environment, the more stable our perceptions and expectations. Since expectations mirror the environment in its entirety, the obverse is also true. Environments characterized by change, or by shifting and confusing patterns of behavior, produce perceptions that are ambiguous and unstable: hence uncertainty.

No one adjusts easily to drastic change, especially if it is sudden or inconsistent. In fact, most of us find change disorienting. When we experience it, we do not know how to behave. We become misfits, to use Hoffer's phrase.[23] Little wonder that throughout history, civil disorder has generally followed rather than preceded drastic change, even when that change has been in the direction of reform and redress of grievances.[24]

If these ideas are correct, the inconsistency characterizing the social and economic experiences of black Americans should also be found in black social and economic perceptions and expectations, particularly in those of poor and marginally poor blacks who experienced the greatest overall fluctuation and change. Black responses to survey questions asked in SRC's biannual election studies demonstrate clearly and emphatically that this was in fact the case. The findings illustrate that the instability seen in the economic and social life of blacks is reflected in their perceptions of how they fare socially and economically.

The greatest instability in economic perceptions was experienced by northern blacks—indicated by the number of fluctuations in their economic perceptions and by the magnitude of these fluctuations. Between 1956 and 1968, the northern black/white fluctuation ratio[25] was greater than 3 to 1. Fluctuation in the northern black's perceptions of his personal financial situation was greater than three times the fluctuation in the northern white's perceptions.

The same pattern of black perceptual instability compared to the trend in white perceptions holds, but to a lesser extent, among southerners. The instability in the southern black's economic perceptions was double that of the southern white's but roughly one half that of the northern black's.

23. *op. cit.*, p. 2.

24. *Ibid.*, and Alexis de Tocqueville, *The Old Regime and the French Revolution*, translated by Stuart Gilbert (Garden City: Doubleday Anchor, 1955).

25. The fluctuation ratio is computed by multiplying the number of reversals in the linear trend by their magnitude, dividing this figure by the total number of years, and then comparing the black and white quotients.

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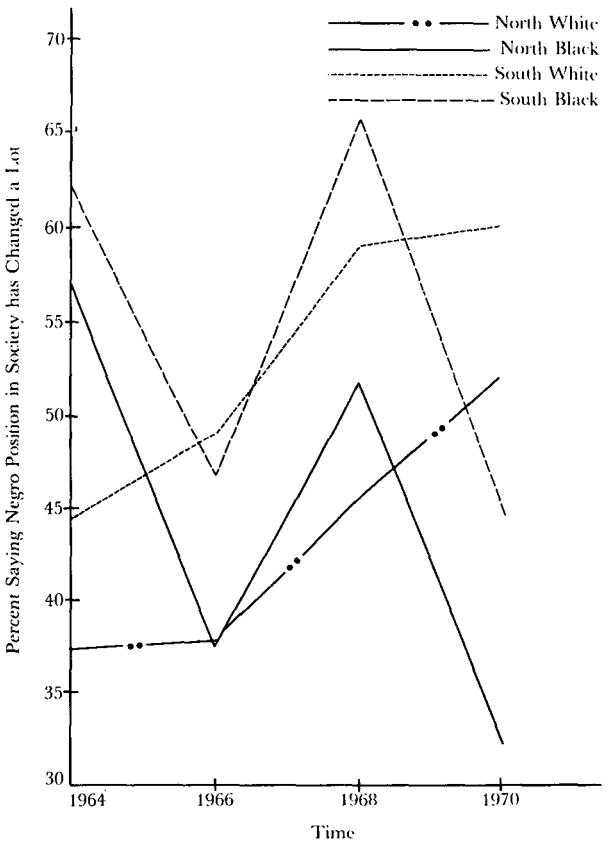
Figure Three

Perception of Negro's Position in Society by Race and Region, 1964–1968.



Source: Computed from data collected in the 1964–1968 Center for Political Studies Election Surveys, University of Michigan.

Fluctuation can also be seen in black perceptions of the direction of change in the status of black America. Since 1964, SRC has asked respondents whether they think the black person's position in America has improved "a lot." The responses, plotted in Figure 3, point up to two trends: Across all years, northern blacks and whites were much less willing than their southern counterparts to say that the condition of black Americans had improved a lot. And, unlike blacks, whose perceptions of change fluctuated sharply from

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year to year, whites showed a gradual and steady recognition of positive change in the status of blacks. The ebbs and flows of black economic progress, coupled with vacillating white racial attitudes, no doubt contributed to much of the ambiguity in the black person's perceptions of change by making it difficult for him to decide whether things were improving or getting worse.

Given that people's expectations are shaped by their perceptions of the past and present, it is not surprising that black economic expectations were markedly more unstable than the white person's. (See Figure 4.) Between 1956 and 1968, the financial expectations of northern blacks were roughly nine times more volatile than the financial expectations of northern whites, and fluctuation in southern black expectations was approximately four times as great as white southerners'.

One reason why black economic expectations were more unstable than those of whites is that the expectations of low-income blacks are *extraordinarily* unstable, and during this period most blacks were concentrated at the bottom rungs of the income ladder. Although at each income level black expectations are noticeably more unstable than those of white people, the difference between black and white orientations toward the future is most apparent at the lowest income levels. (See Figure 5.)

Low-income whites are decidedly and consistently the most pessimistic of all groups in terms of their financial outlook; low-income blacks, whose personal and financial expectations fluctuate wildly up and down from year to year, are clearly the most erratic in theirs. In some years, the financial aspirations of low-income blacks fall below those of poor whites; in other years, their expectations *exceed* those of upper-income whites. What all of this means is not altogether clear, but two things are certain. Many low-income blacks do not possess stable orientations toward the future, and this absence of a stable frame of reference cannot help but be a cause of uncertainty and frustration.[26] These ideas are borne out by black responses to additional questions included in the SRC election studies.

Figure 6 displays SRC data assessing uncertainty in financial expectations. Figure 7 presents black and white responses to an SRC question which asks respondents whether they feel *sure* that their lives will work all right. These items can be used to gauge black and white feelings of confidence in their ability to shape

26. Banfield op. cit., pp. 61-63 ff.

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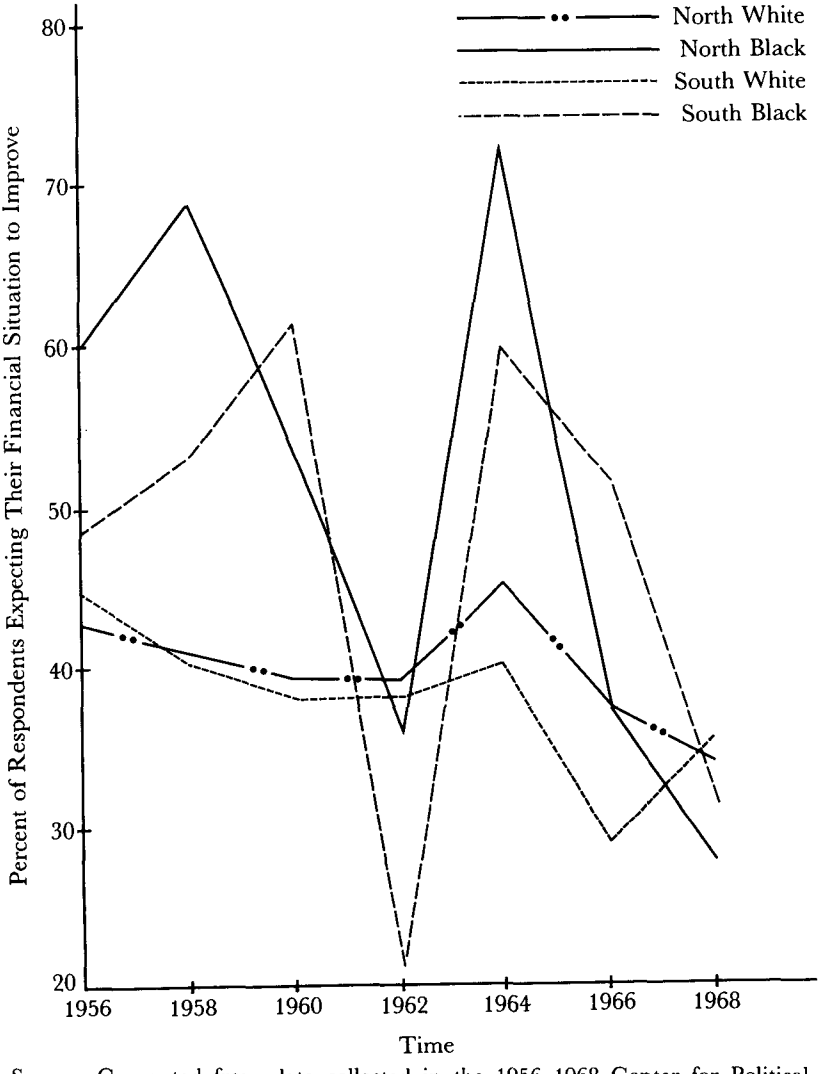
Figure Four

Future Financial Expectations by Race and Region, 1956-1968.



Source: Computed from data collected in the 1956-1968 Center for Political Studies Election Surveys, University of Michigan.

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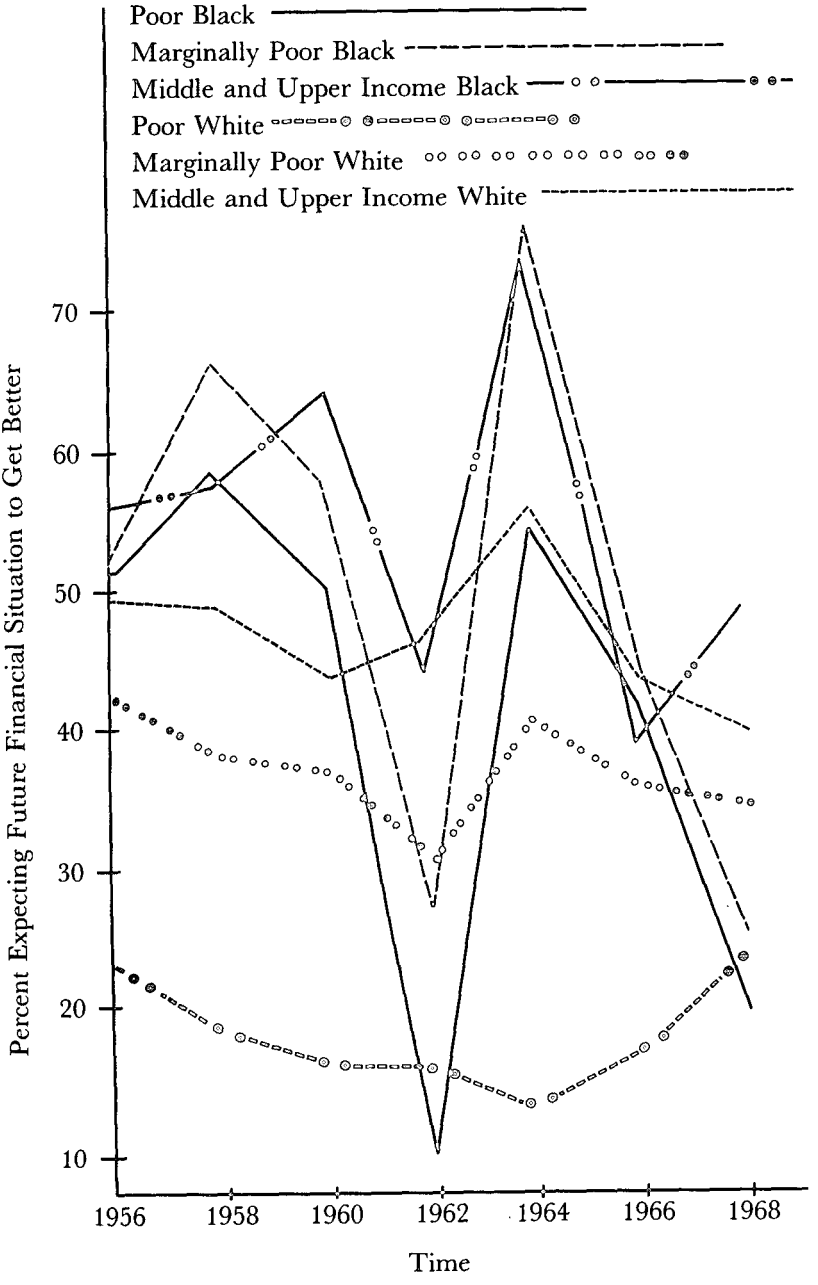
Figure Five

Future Financial Expectations by Race and Income, 1956-1968.



Source: Computed from data collected in the 1956-1968 Center for Political Studies Election Surveys, University of Michigan.

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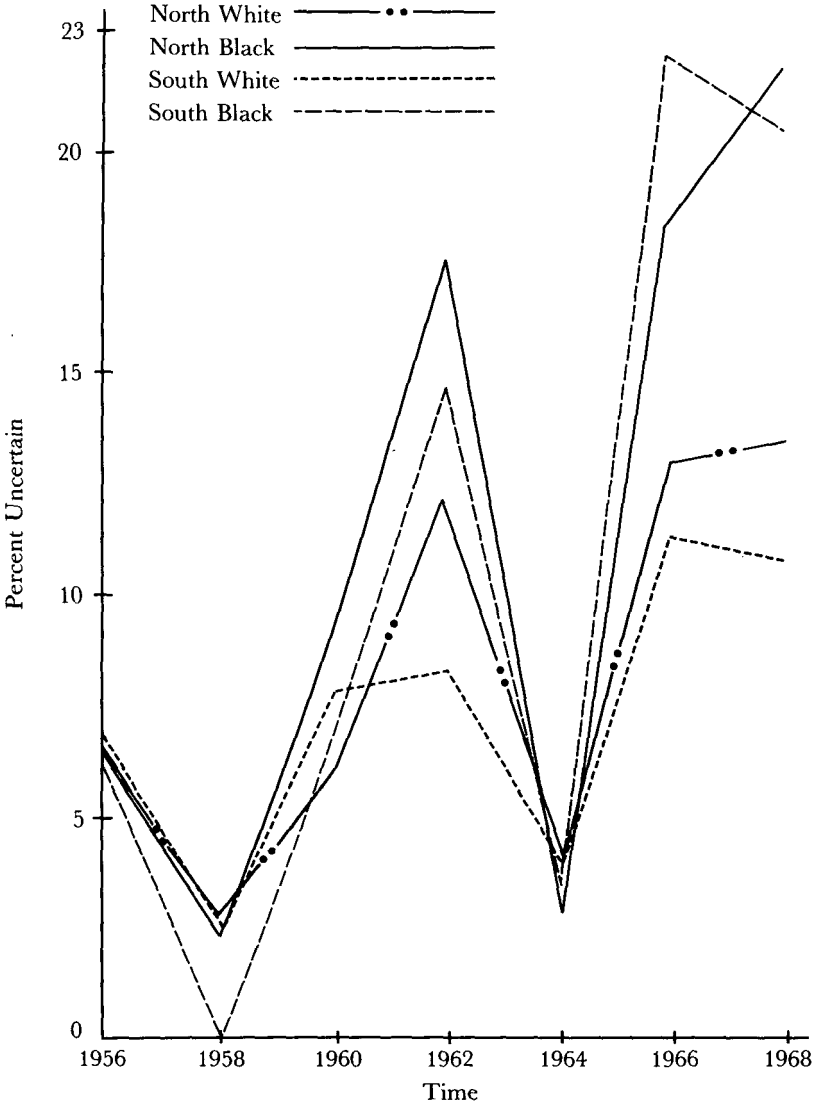
Figure Six

Financial Uncertainty by Race and Region, 1956-1968.



Source: Computed from data collected in the 1956-1968 Center for Political Studies Election Surveys, University of Michigan.

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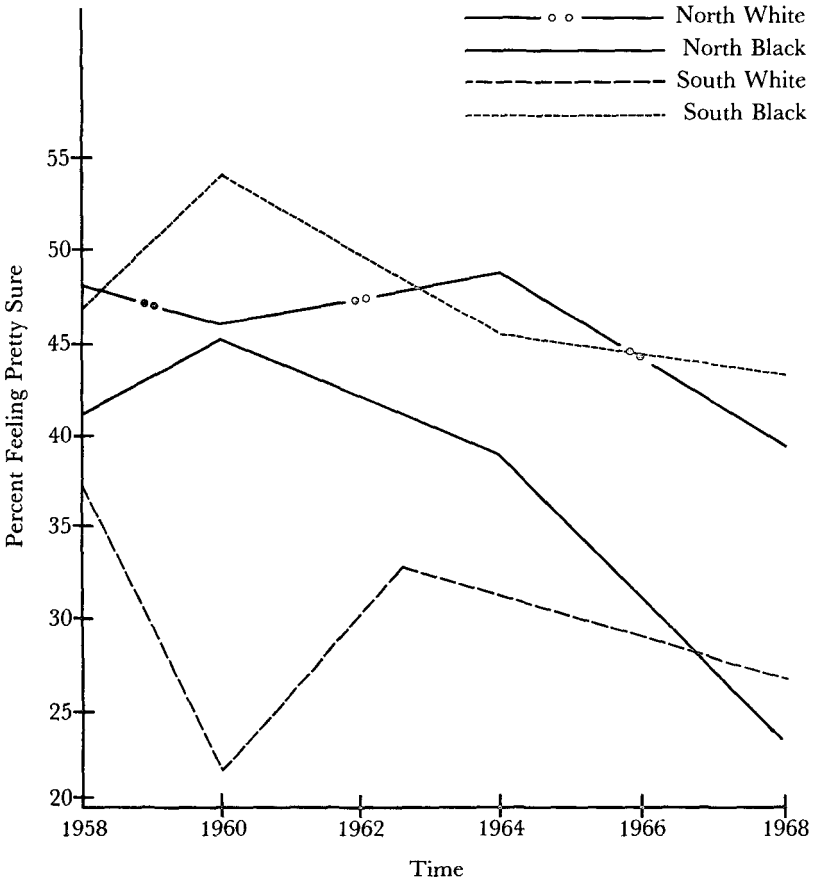
Figure Seven

Personal Uncertainty by Race and Region, 1958–1968.



Source: Computed from data collected in the 1958–1968 Center for Political Studies Election Surveys, University of Michigan.

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their lives in personally satisfying and purposeful ways. The findings are revealing. Black uncertainty grew in fits and starts throughout the 1960s, and more noteworthy, the sharpest increase occurred *after* 1964. This trend is especially apparent among northern blacks, who experienced the highest levels of economic and personal uncertainty towards the latter part of the decade. Among northern blacks, it was the lower-class black who experienced the greatest overall uncertainty during this period.[27] As demonstrated below, his uncertainty greatly affected his orientation toward violence.

The Black Urban Riots

The data employed to examine the role of uncertainty in the riots are taken from Campbell and Schuman's survey of "Racial Attitudes in 15 Riot Cities" obtained through Inter-University Consortium for Political Research from the University of Michigan. This survey contains several items that can be used to create a measure of riot proneness[28] as well as to indicate uncertainty, relative deprivation, and other psychological and political attitudes that might explain why a black person would participate in a riot. Since most of the violence committed during the riots was carried out by teenage and adult males,[29] my analysis is performed on males only, grouped by age.

The statistics displayed in Table 1 are gamma coefficients. A gamma coefficient measures the degree to which one variable, say uncertainty, is related to another variable, say riot proneness.

27. A difference of means test was performed on the responses of northern blacks with incomes under $7,500 and on those with incomes above $7,500 in SRC's 1968 election study. Personal uncertainty was significantly higher among the low-income group, $.01 > p. > 001$.

28. The number of black respondents in the sample who reported actual involvement in the riots, 77, was too small to allow for control procedures. Introducing partition design controls on a sample this small would reduce cell entries so severely that meaningful interpretation would be suspect. However, since Campbell and Schuman's survey also contained items tapping various dimensions of riot proneness—ranging from whether the respondent said he would participate in a future riot to his orientation toward committing violence—these violence-prone blacks were added to the group of actual rioters. An analysis performed on these individuals revealed that, in terms of demographic and attitudinal characteristics examined, these violence-prone blacks were substantively no different from those who actually reported having participated in the riots. For a discussion on this matter see, Abraham H. Miller, Louis H. Bolce and Mark Halligan, "The New Urban Blacks," *Ethnicity* 3 (December 1976), pp. 338–368.

29. National Advisory Commission on Civil Disorders *op. cit.*, p. 173.

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TABLE 1

Ordinal Measures of Propensity to Riot Among Black Males by Various Attitudinal Characteristics (Age Controlled)

	Age	Gamma	N
Personal Uncertainty	16–29	.47[a]	375
	30–44	.65	347
	45 +	.56	378
System Unresponsiveness	16–29	.24	305
	30–44	.11	289
	45 +	−.19	313
Political Efficacy	16–29	.19	390
	30–44	−.20	365
	45 +	−.02	403
White Antipathy	16–29	.41	342
	30–44	.39	316
	45 +	−.17	344
Relative Deprivation	16–29	.43	316
	30–44	.27	285
	45 +	.57	329
Life Satisfaction	16–29	.20	263
	30–44	.28	335
	45 +	−.28	364

[a]Positive valence means that the more likely the individual was to have a negative attribute on the independent variable the more likely he was to riot.
Source: Computed from data collected in Campbell and Schuman's study "Racial Attitudes in 15 Riot Cities," Center for Political Studies, University of Michigan.

The coefficients range from 0 to +1.0 or −1.0. A zero gamma means that the two variables are unrelated. A 1.0 gamma means that the two variables are perfectly related. In this analysis the gamma coefficients summarize statistically the extent to which each of the attitudinal variables distinguishes riot-prone from nonriot-prone black males. The stronger the relationship, the greater the difference between rioters and nonrioters on that attitudinal characteristic.

The data are entirely consistent with my thesis. Uncertainty

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was not only the most important attitudinal characteristic distinguishing rioters from nonrioters, but its influence extended across all age groups. Black males between sixteen and twenty-nine years old who scored high on the personal uncertainty index, for example, were two and one-half times as likely as their counterparts who scored low on the uncertainty measure to participate in the riots. Among the two older groups, those who experienced high levels of uncertainty were three times more likely to be rioters. Feelings of relative deprivation appear to be the second most important attitudinal variable that consistently distinguished rioters from nonrioters, followed by perceptions of white hostility towards blacks and personal life dissatisfaction.

The data show that black political grievances and negative attitudes toward the political system were *not* major factors in the riots. Black males between thirty and forty-four years of age who held positive attitudes toward the political system, for example, were just as likely to participate as those who believed that government was unresponsive to black grievances. And among older black males, those most likely to riot tended to be those who believed that government *was* responsive to the needs of blacks. Political powerlessness also appears not to have played an important role, at least in any consistent way. Its relationship was, at best, marginal and varied by age group.

These data, when examined as a whole, offer little support for the "riots-as-protests" notion of the disorders. Feelings of injustice may have inspired some blacks to participate, and for others the riots may have served as a "functional alternative" to blocked grievance redress mechanisms. For most rioters, however, political grievances were largely incidental to their participation. By and large, rioters were drawn from the least politically sophisticated segments of the black lower classes.[30]

Uncertainty is endemic to the human condition. Situations change, the best laid plans are wrecked by unforeseen events. We can never be sure when something is really beginning, and something else is happening, and what it all means. Yet, for most, uncertainty is not an unremitting, ever-present factor which must be constantly dealt with. We feel it intermittently during life changes and acute crises. But its disruption is short-lived, manageable, and not decisively destructive to our well-being. In one class, how-

30. Banfield *op. cit.*, pp. 220 and Midge Decter, "Looting and Liberal Racism," *Commentary* 64 (September 1977), pp. 48–54.

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ever—the urban lower class—uncertainty is chronic. Predatory crime, family instability, poverty, joblessness, and the myriad of pathologies common to inner-city slums, engender and sustain a perception of the world as something which is unpredictable, menacing, and beyond control. Lower-class uncertainty, in turn, produces behavior which reinforces the social conditions largely responsible for the instability and squalor we observe in slums—notably, social disorganization and violent crime.

Because chronic uncertainty is incompatible with planning for the future, it gives rise to a combination of interacting and reinforcing attitudes which tend to increase the threat of lower-class violence and lawlessness. Not being able to plan ahead or to assess the probable consequences of his behavior, the lower-class person is likely to be frustrated in all but his most short-term endeavors. Drifting from one short-term goal to another adds to the general episodic quality of his life, exacerbating his overall sense of powerlessness, frustration, and social isolation. Feeling powerless and frustrated, committed to nothing, and faced with an uncertain future loaded with trouble, he has little incentive for self-restraint and every reason to act on his impulses, whatever their consequences, for they too are uncertain. Add to this his lack of steady work and income and long blocks of unstructured time, and the result is a complex of dispositional and situational inducements to impulsive lawlessness.

While these factors help to explain why crime rates are high in urban slums, they do not explain the destructive pattern of lawlessness that exploded across northern inner cities during the late 1960s. Lawlessness has always been common among lower-class slum inhabitants. But rarely has it displayed the proportion and violence of large-scale street rioting. Two additional factors help to explain the escalation of violence in black slums. These factors are fluctuation and change in the black experience, and moral uncertainty.

The situation of the black lower class was aggravated during the 1960s by fluctuations in their socio-economic status and civil rights and change in society's attitudes toward them. The anxieties, hopes, and ambiguities inherent in the realization of change, and the sense of bewilderment over what racial equality would actually mean for him and require of him, destabilized his social and economic expectations, thus compounding his uncertainty and frustration, and thereby overwhelming his internal inhibitions against violence.

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The moral uncertainty that engulfed America during the 1960s also contributed to the black urban riots. Beginning with the civil rights movement and the discovery of poverty amidst affluence, and fueled by student agitation over Vietnam and the assault on middle America by a tradition-flouting counterculture, many Americans came to believe that American institutions and rulers were unjust and wrong. A moral consensus that had been decades in the making was suddenly shattered, almost overnight. Such periods marked by sustained and impassioned conflict over values tend to create uncertainty as to what the legitimate functions and policies of government should be and to confound social definitions of lawful and deviant behavior. Moral uncertainty created a climate of social and political opinion conducive to civil disorder, as violence and lawlessness became acceptable or excusable in some political and intellectual circles.[31] For the black lower class—a group whose attachments to conventional morality and mainstream values were already tenuous at best[32]—moral uncertainty provided a rationale for plunder and violence by accentuating their feelings of discrimination, deprivation, and injustice.

When the moral basis of government and law disappears for a sizable fraction of society, law enforcement becomes exceedingly difficult, not only because more people are breaking the law, but because officials charged with enforcing the law are no longer certain as to what constitutes proper methods of enforcement. Techniques that have suffered little criticism in the past evoke cries of outrage and calls for protest and retribution. Indeed, enforcement may be seen as brutally unjustified.

Placed in this context, any group with a sense of inequality and status apprehension will find its insecurities and feelings of injustice aggravated by the moral uncertainty of the society in which it lives. Add to this group another—a large lower class—whose vision of the future is tied inextricably to the present by its sense of purposelessness and feelings of uncertainty and frustration, each feeding upon the other and compounding daily, and it is easy to see how everyday, commonplace events, or the slightest provocation, can touch off rampages of destructiveness and lawlessness as exhibited in the 1960s urban riots and more recently by the looting and arson that caught New York City by surprise during the 1977 blackout and Miami, Florida three years later.

31. *Ibid.*

32. For a discussion of lower-class morality, see Banfield *op. cit.*, pp. 182–183.

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Every Man a Capitalist

W. H. HUTT

Why should not the workers be allowed the right to "participate" in the making, changing, and enforcing of the rules to which they are subject in the industrial and commercial world? The answer is that that right exists! The workers do not have to *fight* for it. They can, if they wish, make and themselves enforce *all* the rules. It is not necessary that they shall own the assets with which they work in order to delegate to managers of their own election the authority to direct the process of production (which is what Marxists would assume). They can do so by hiring the assets. That they never actually do this in practice is because the arrangement of risk-taking under the present system of entrepreneurial direction is so much better. That is, the workers benefit enormously from contracts under which they agree to accept the commands of others in return for no risk. But there is no *legal* obstacle to their setting up businesses controlled by themselves, and there never has been. Nor, I think, has there ever been any private opposition or any contrived obstacle to their undertaking the whole of the planning and direction of industrial or other enterprises if they think that that would be to their advantage.

If they wish to shoulder a major part of the entrepreneurial function, the workers have simply *to accept responsibility* for the decisions of the managers to whom they would delegate decision-making powers. This means that, in a free society, they must accept the consequences of those decisions in the sense of meeting contractual obligations, taking the profits, and bearing the losses. All that is necessary is that they shall rent or hire the fixed assets with which they work and borrow capital for self-liquidating assets like materials and work in progress and for the drawings they make (as wages) in prospect of profit. If they are prepared to accept the residue and to pledge future earnings to cover possible losses (thereby accepting the risk), paying a contractual income, i.e. rent or interest, to the providers of capital, it will be the legal right of those workers to appoint and direct the managers. In assuming the right to manage, they will of course have to contract to pay interest to those who, by refraining from consuming the capital they have saved or inherited, provide the "other re-

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sources'' needed for production. But they can then share the whole of the residue as their remuneration—which will be wages *plus* profits or *minus* losses.[1]

The issue can be put this way: in a democratic, free enterprise community, both the formulation of the complex of rules which govern the activities carried on within a workplace *and* the administration of these rules are functions which may be assumed *either* by officials appointed by the workers *or* by officials representing those who provide the financial resources needed. Whichever group elects to accept the residual claim (positive or negative, profit or loss) on the value of the product, acquires automatically the right to draw up the rules, as well as the right to select and appoint the managerial hierarchy.

Hence, if the workers, or their representatives, so choose, they can be completely free to *make* and *enforce* all the rules, with no interference whatsoever from the other parties to production. The sole condition is that they are prepared to bear all the losses, and to share among themselves all the profits. Their incomes will then depend upon the wisdom of the rules made by their appointed managers; the wise administration of those rules; the general shrewdness of managerial predictions; and pure luck, inevitably present in some measure in all entrepreneurial forecasts.

But will the workers, first, wish to be entrepreneurs? They already accept an important entrepreneurial role in choosing an occupation or an employment outlet. This vital function seems nearly always to be taken for granted, or at any rate, seldom perceived as entrepreneurial in nature. What is officially reckoned as ''unemployment'' may, in fact, sometimes be a vitally important form of remunerated employment. The yield to the investment of scarce time and effort in finding a more satisfactory job is reasoned to be in the nature of ''profits'' when the time and effort devoted to the process turn out to have been wise or lucky, and in the nature of ''losses,'' when in the opposite case. Unemployment compensation can be regarded as, in part, a subsidization of this

1. Only one economist has, as far as I have noticed, referred *specifically* to this possibility. I. B. Kravis remarked, in a well-known article of 1959, ''. . . when the entrepreneur commits his labor and his capital to an enterprise, he is taking the risk that he will get less than the market rates of return on both the labor and the capital in the hope, of course, that he will get much more. Since the two types of input are jointly committed, there is a case for allowing both to share in the ups and downs of entrepreneurial income.'' I. B. Kravis, ''Relative Income Shares in Fact and Theory,'' *American Economic Review*, Dec. 1959, p. 925.

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form of productive employment, a form which is inescapable (although certainly economizable) in a society in which labor has full freedom. It is significant that, in the United States, recorded experience shows that, ignoring dismissals, almost one-third of the labor force engaged in manufacturing quit their jobs in any year. Nearly all believed they had found something better.

A possible criticism is that workers could never take the initiative in establishing enterprises because they lack the resources. But since wages and salaries make up from 63 percent to 85 percent of the value of nearly all final products,[2] it is perfectly possible for them to own industrial assets. Wage and salary earners are incomparably more numerous than stockholders. In almost any firm, if 10 percent of the workers' income were set aside, it would not be many years before their capital came to equal that of the firm itself. Alternatively, great labor union organizations like the AFL-CIO already have enormous capital funds invested in a wide range of undertakings. If they wished to operate along the lines I suggest below (which means if they had faith in the ability of workers to elect competent directors and appoint efficient managers), these wealthy corporations could advance promotion loans, to be redeemed out of prospective sales. Should the first experiments of this kind prove successful, worker-owned firms would then be able to borrow in the capital market. There are, in fact, a number of instances in which the workers have assumed the entire entrepreneurial role and established wholly employee-owned businesses.[3]

The problem arises, of course, out of concern with how *the proceeds* of any operation involving all three factors—the services of assets, the services of workers, and the services of direction—shall be divided. How can the value of the product be equitably apportioned? Are there any general principles to guide us? Little trouble for the economist arises in the case of a worker who uses his own tools and sells his products directly to the public. He will be completely free to charge whatever he judges will be most profitable for the joint product of his services and those of the equipment he uses like a professional concert violinist, some professional typists, and some pastry cooks. In all other cases, contractual arrange-

2. For summaries of empirical studies of the proportions, see my *The Strike-Threat System* (1973), pp. 241–248.

3. Norman Macrae, "The New Entrepreneurial Revolution," *Policy Review* No. 12 (Washington, D.C.: The Heritage Foundation, 1980).

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ments must provide: (a) that the personal efforts or skills of workers be paid for as wages or salaries, determined by what is necessary to attract them from alternative employment openings, (b) that the services of assets be paid for in the form of market-determined contractual interest on the value of the buildings, instruments, materials, and energy the workers use; and (c) that the residue—some element of profit or loss—shall remunerate entrepreneurial services. All three amount to gross remuneration.

The customary separation of the worker from ownership of the assets with which he works appears, then, to lie at the root of most labor-management disagreements. In practical terms, the workers have rarely thought it profitable actually to participate in the ownership of the assets they use, even by the simple expedient of purchasing shares in the firm that employs them. Certainly there have been experiments with "employee stock ownership," but they have been of negligible importance. That is why receipts from sales of the joint product must be divided according to contract. It is at this point that the crucial question arises: will the terms of the contract mean that the providers of the assets and direction receive too little and the workers too much? Or *vice versa*?

In capitalist societies, a peaceful solution, whether just or unjust, is achievable through "the free market" in which the prices of the services of assets (interest) and the prices of the services of men (wages and salaries) are remunerated in an identical manner —in relation to the estimated value of their alternative employments. It is consumers who are the ultimate employers of both, and their bidding (through buying or refraining from buying products offered) determines the value of the services both offer. At any amount, there is a given availability of different assets for which society is bidding. Similarly, there is a fixed supply of workers of conventional working age of both sexes, with different wages, different training, different skills, and different physical strengths for which, again, consumers are bidding in an identical manner.

One arrangement, which would be particularly practicable where a firm is growing, is where the workers in a corporation contract to *share* in profits and in management *in proportion to that value of their inputs which they put at risk*. For instance, if they are prepared to risk, say, a sum equal to a fifth of their current aggregate annual earnings by pledging future wage receipts, they can do so by a sort of installment purchase of the corporation's stock. They can borrow this capital sum through their union or through the corporation for which they work. With the borrowed funds

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they can acquire a special issue of the corporation's ordinary stock. Their debt can then be repaid at, say, an annual rate of 10 percent of the sum borrowed *plus* interest on the balance, with the amount due deducted from every wage payment. The deduction from each man's wages at the outset could then be one-fiftieth of the gross wage rate *plus* a small proportion to cover interest. If the business is successful, the workers will receive more than their interest payment in the first year, either as a dividend check or indirectly in the form of capital appreciation. In subsequent years, of course, the deductions needed to pay *interest* on the loan will fall progressively. On the other hand, if the business is unsuccessful, the workers may have to pay more in interest than they receive in dividends. Moreover, if losses are incurred and no dividends are paid, the workers will still be committed to paying off the principal and interest on any outstanding balance.

Limiting Liabilities

But the scheme I am proposing here is different in detail. It is one I call "shared entrepreneurship." It is a hypothetical system under which the workers in a newly founded enterprise choose to invest their inputs and, in the manner of stockholders, appoint their own directors, expecting to share equitably in any realized profits or losses. Again, by "equitably," I mean in proportion to the value of the risk they undertake. They will then be remunerated in part by profits, and will be in exactly the same position as stockholders. The latter make their contribution by investing the services of their assets, receiving in remuneration interest *plus* profits or *minus* losses. Similarly, the workers will invest their services and be remunerated by wages *plus* profits or *minus* losses. The innovation is that, if losses *are* incurred, the workers will still receive their wages, the losses being met by a deduction from a fund built up by compulsory savings which they will have contracted to make and to preserve as collateral. They will, of course, be under an obligation to make up the original collateral out of future earnings. "Shared entrepreneurship" is simply *responsible* labor participation in management. Its purpose is not to redistribute income but to enable the workers to experience the loss-avoidance incentives and to receive a substantial additional income via their risk-taking support of the directors they elect.

Suppose, then, that prospective providers of assets make prospective workers an offer of the following kind:

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"We are prepared to invest in a factory, in machinery, in other essential equipment and in materials up to the value of $10 million provided we can find sufficient workers prepared to (a) accept the responsibilities of management through their elected representatives; (b) accept the risk of losses; and (c) share in profits in an agreed, equitable manner. We are inviting qualified workers to join us in the venture by *investing their labor in it*, receiving for their services not only contractual wages but ultimately a growing share of the profit residue—the proceeds of sales after the payment of interest on capital to stockholders, wages to labor, and the settlement of all other costs. We must emphasize, however, that any such arrangement will involve *the possibility* of a parallel and joint sharing of losses. Thus, the scheme we are suggesting involves the determination of labor's remuneration in exactly the same way that dividends are determined. The employment contract will stipulate that our workers agree gradually to build up a capital fund invested initially outside our own enterprise—through regular deductions from wages. This fund will provide for each worker an initially small but growing additional income in the form of interest, but its chief purpose will be to serve as collateral against possible losses. All deductions will cease, however, when the total collateral equals our capital. The workers' collateral fund could well grow to equality with the capital that stockholders are risking after about four years. Under the plan we propose, the workers will enjoy a form of limited liability, the limit of their losses being the aggregate amount of the collateral they have provided. Employees will thus cooperate with management by shouldering the same responsibilities that stockholders have always assumed in the past. The voting power of the directors whom employees appoint to the board will be proportional to the aggregate collateral that they, the employees, have put up. They will have the duty of contributing to policy decisions generally, including the choice of departmental heads, the composition and pricing of outputs, the nature and cost of the fringe benefits, and similar decisions.

"We shall have contracted to pay agreed wage rates and salaries which our accountants will treat as normal costs of production, just as they treat interest. But in the determination of the profit or loss element, the workers' representatives will have exactly the same rights as shareholders' represen-

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tatives on the board. Stockholders risk every dollar they put into the firm. They *can* lose the whole of what they have put in through unwise or unlucky management decisions. That is why, as a parallel, we are bound to ask our prospective workers to risk the whole of those savings, which we ask them to provide as collateral."

The best plan would be to aim at an eventual sharing of the absolute risk, and so bring deductions from wages and salaries to an end (except, of course, for newcomers) as soon as the growing collateral comes to equal the initial capital. By that stage the workers will be receiving, in addition, a considerable aggregate income from outside the firm in the form of interest. Their collateral will then be invested in a portfolio of common stocks chosen by a skilled investment specialist although still serving its original purpose.

But the interest and wages element in gross remuneration may be changed at stipulated times by a joint decision of the directorate which will, as I have explained, represent the providers of labor and the providers of capital. At the same time it will have to be made crystal clear that the providers of capital are *investing* it at risk. They will remain stockholders—not mere lenders to the corporation. Every newcomer to the work force will be called upon to provide a similar collateral to that provided by the existing employees, that is, in proportion to the wages he is offered. I envisage his total collateral as being gradually accumulated, as it had been previously by existing employees. No newcomer will be recruited if his prospective contribution to productivity is expected to be less than any claim he will acquire on aggregate profits.

It is essential to shared entrepreneurship that the services of all, both labor and capital, have to be equally bid for under competitive conditions. Hence, the determination of the wages ingredient in labor's remuneration would be market-determined, i.e., solved through competition with alternative employments available, just as the rate of interest, which is remuneration for the services of assets specified in a contract of employment, would also be market-determined. In other words, if a free labor market is permitted, both types of income would clearly be arrived at in like manner.

What would this mean for the workers' terms of employment? These would have to include two innovations. In the first place, the wage contract would have to include compulsory thrift. An agreed percentage of gross contracted wages would be deducted weekly, say 5 percent, and invested on the workers' behalf. Initially this would best be done in an outside independent institu-

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tion such as a savings and loan association. The workers' aggregate savings in this fund would provide collateral against losses—an inescapable condition of the scheme.

Under this arrangement it should be made clear that the workers are in much the same position as stockholders. Stockholders would continue to be remunerated by contractual interest, *plus* profits or *minus* losses; workers would be remunerated by contractual wages, *plus* profits or *minus* losses, deducted from the collateral; *plus*, of course, the yield in interest (very small at first) on their collateral.

How would profits be divided between capital and labor? Once the workers' collateral was equal to the stockholders' capital, profits would be divided equally. At that point, general wage deductions would cease. Until then, however, the workers' share of profits would be in the same proportion as their collateral to the total of stockholders' capital. And to take account of labor turnover, individual workers would share in aggregate profits in proportion to their individual contribution to the total collateral which, although not capital in the business, confers rights identical to those of capital ownership.

What, however, if there are losses? In that event, the collateral would be reduced by the workers' share of the loss, both collectively and individually. The important point here is that workers who may, for instance, have invested one-twentieth of their year's earnings in the collateral fund should be guaranteed against losses beyond the amount they put at risk. This concept is similar to "limited liability" in stocks and shares. Naturally, there will be no limits to the workers' rights to profits under these conditions.

No Shirking Problems

Now, might not labor's participation in profits, through its consequences on worker motivation, have powerful effects in generating larger outputs and a larger wages flow? We can classify possible (or probable) worker reactions under the following three headings: cost-savings innovation by an individual worker; collective willingness by workers as a group to abandon restrictive practices and accept more efficient working methods; and the problem of shirking. No special problem arises because the innovative contribution of some will be of much greater value than the innovative instincts of others. Society has more or less solved this problem through patents and copyrights. Within the firm, promotion, which already occurs, may well become more commonplace when the workers' interest in the profit margin (and therefore in cost reduc-

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tion) becomes as great as that of the present shareholders. The workers collectively will certainly benefit from the externalities due to the initiatives of the relatively few. Under shared entrepreneurship, they are more likely to be aware of the fact. Similarly, the individual worker's interest in his or her share of dividends will be an incentive to eliminate restrictive practices. There will no longer be the present (misguided) feeling that the benefits of greater efficiency accrue entirely to other people, namely shareholders.

Shirking raises more complicated questions. At present, the costs of shirking are two-fold. Its inefficiency costs are inflicted mainly on the shareholders in the form of reduced profits—at least it appears so to the workers who see no direct link between greater efficiency and higher wages. The cost of work undone, however, is distributed among the shirker's fellow workers and resented by them. But this cost is likely to be relatively light for any individual worker so that it will perhaps not produce any serious retaliation. Under shared entrepreneurship, however, workers will have a *financial* incentive not to shirk, for shirking threatens to reduce output and thus their share of profits. Accordingly, they will have an interest in putting pressure on all workers who are not pulling their weight. Some heroic shirkers, of course, may resist the increased pressure of their peers. Let us assume that dismissal is, for some reason, ruled out. It might then be in the interest of other workers to "buy out" the entrenched laggard if the calculated net profits would rise on his departure by more than the cost of the bribe. Fanciful though it sounds, this example demonstrates the radical incentives for efficiency that are possible when workers have a real investment in their jobs.

The second major innovation in the terms of employment under shared entrepreneurship would be the renunciation of the right to strike. Even under conventional arrangements, I can perceive no justification for the right to fix or influence any wage-rate through the private use of coercive power—the threat to disrupt by withholding labor in concert.[4] But under shared entrepreneurship, it would be clear that striking workers would be "striking against themselves"—a phrase used by Marxists to account for the absence of strikes in communist regimes, but given sensible meaning here for the first time! In the absence of this "right," no worker or

4. This point is examined at length in two of my books: *The Strike-Threat System* (1973), and *Labor's Disadvantage?*, to be published shortly by the Heritage Foundation.

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group of workers would have the power to raise wage rates on their own initiative.

A rise in wage rates could and would occur under shared entrepreneurship only as a result of the value of a worker's alternative employments having risen. If the company did not then pay him more, his only option would be to quit. On the other hand, the workers would be gaining a share in the appointment of managers and in the determination of company policy. And if they reneged on their no-strike agreement, there would finally be the collateral fund which would be available to compensate the stockholders for any "wildcat" breach of contract.

Despite its advantages, shared entrepreneurship would be difficult to put into effect in existing corporations. In the absence of coercion, why *should* stockholders share profits with workers unless they simply sell their shares to them? That is precisely the arrangement in the "employee stock ownership" plan which has already been tried without marked success in the industrial world. Moreover, giant corporations have developed many bureaucratic characteristics themselves, including a resistance to change. For this reason, it appears to me that only competition from new and small firms, which I envisage as most likely to perceive the advantages of shared entrepreneurship, may force existing and larger corporations to grasp the nettle. Relying on Burton Klein's *Dynamic Economics*, George Gilder asserts that "new developments almost never emerge from the leading companies in an industry. Even when a breakthrough is made at a large corporation (such as the transistor or photovoltaic solar cells, invented at Bell Labs), the new item is usually launched commercially by smaller businesses, often started by breakaway teams of engineers and managers from the parent firm."

He also points out that "recent decades have seen a boom in entrepreneurship in America, with new businesses accounting for the vast majority of new jobs." And it is, I repeat, in such new, small firms that shared entrepreneurship is likely to be first adopted. If that does happen, the dynamic consequences are likely to be formidable. For prospective yields to investment in such firms would rise. A superior worker motivation, the dissolution of strike-threat constraints, and, hence, prospectively greater outputs would surely follow. Wage rates much higher than those ruling at the inception of the scheme would almost certainly arise. And all this would be in addition to the workers' share in profits.

What of the rights of workers who wish, for whatever reason, to leave the company or who are made redundant? In the first place,

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their property rights in their savings would have to be protected. They would, therefore, take with them their share of the accumulated collateral, although workers remaining in the company could not alienate their stake. Newcomers would similarly purchase their rights as part-owners of the company by having 5 percent deducted from their wages until their contribution reached the agreed sum.

If, however, workers retire when a company under shared entrepreneurship is in difficulties, replacements would not be recruited. The collateral sum would fall as these retirees withdrew their shares and no new contributions were forthcoming. But that presents a smaller problem than at first appears, for the capital value of the company would also fall, perhaps not *pari passu* but nevertheless with a rough equivalence. (Different problems arise from redundancies due to technological innovation and investment. These are dealt with below.)

Is there a problem of success? A worker in a successful company would be someone with a right to share in future profits. If the profits seemed likely to be large, he would look forward to enjoying a very high rate of return on his modest investment. Presumably, then, he would be reluctant to leave the company if his sole compensation were his share of the collateral. Labor turnover, in these circumstances, would be rather low. A worker would not be prepared to give up his right to future profits without more compensation than simply his share in the collateral. Equally, a worker joining the company would gain a right to share only in any *increase* in future profits in return for paying in his share of the collateral. What would be likely to happen? *Ceteris paribus*, workers would be able to *sell* their full share in profits to new applicants for a sum above and beyond their share in the collateral. In effect, they would be selling their right to participate in future profits at the market price: namely, the standard wage deduction plus a premium representing estimated future profits. In this way, for instance, might not an elderly worker be able to realize the capital built into his job, transform it into a nest egg, and retire? Or might not a worker who is compelled to move to another town for family reasons be compensated for losing his right to future profits in direct proportion to the value of the loss? And so on.

Growing Concerns

More serious difficulties may appear to arise over the inflow of additional capital and the recruitment of additional labor. It might

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seem, at first glance, that the recruitment of more workers would be unwelcome to the existing labor force since more workers receiving the sum total of profits would reduce the individual share. In fact, additional workers would, of course, raise profits too. So it would be in the interest of the existing workers to welcome recruitment of others up to the point that the marginal contribution to profits of the new workers was equal to the standard profit share. The same logic, of course, applies to stockholders and the recruitment of fresh capital. It is possible, however, that this logic might not be readily apparent to either group.

But it is *clearly* to the advantage of existing employees that investment in wage-multiplying assets and capital resources should expand to the point at which marginal yields are likely to add to profits, for this will increase profits without increasing the number of workers with a right to share in them. Indeed, if new investment is labor-saving, it will increase profits while *reducing* the number of workers with a claim to them. In these circumstances, might it not be in the interest of the labor force to offer a price for volunteers to accept redundancy, i.e. to give up their claim on future profits? Similarly, it is clearly in the interests of shareholders that workers should be recruited if they seem likely to add to profits since, again, more profits would be available to the same number of shareholders. Insofar as any conflict exists in the case of labor recruitment, it is one between the interest of the workers in attracting new labor only up to the point that the last worker's contribution to profits equals the average profit share of the individual worker, say $10 per annum, and the interest of the shareholder in attracting new labor to the point that the last worker contributes one cent to profits. The same conflict in reverse exists in relation to fresh capital. Society's interest in both cases is clearly on the side of attracting labor or capital where yields are likely to be greater within the firm than outside. And so, in the long term, is the interest of both sides to this illusory conflict. For, if both sides were to succeed in halting recruitment of labor and capital at the point where further installments would reduce the average profit share, demand for their product would be unsatisfied, its price would rise, new competitors would enter the market, and then both prices and profits would fall.

Still, it might be sensible to reflect the general social interest, which is inherent in the stronger incentives of workers to attract capital, of the shareholders to recruit labor, and in the power and responsibilities of board members. Representatives of workers

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could be deliberately accorded the final voice in determining how much additional investment should be attracted to the firm; similarly, representatives of the shareholders should have the final voice in the recruitment of additional labor.

Shared entrepreneurship, finally, would naturally stimulate and encourage the development of a set of psychological attitudes and incentives that would generally be incompatible with labor unionism. The fundamental, underlying precept of unionism, after all, is that the workers share a collective interest in opposition to the collective interest of shareholders and that unions exist to further this interest by various means, including the strike threat. This would be undermined by shared entrepreneurship, which would tend to reveal and even dramatize the joint interest of both sides in efficiency and profits, and hence their joint opposition to labor restrictive practices (often *now* enforced by labor unions), strikes, and the prospect of disruption. The renunciation of the strike threat in the original contract would soon be merely a legal reflection of an underlying social-psychological reality that workers no longer *wanted* to strike because they perceived it to be contrary to their interests. Insofar as workers under shared entrepreneurship still perceived "enemies," they would no longer be shareholders, but other companies, competitors, and labor unions which attempted to compel the retention of outmoded and inefficient skill demarcations. The compliment is likely to be returned. Because of the efficiency and enterprise that is built into them, companies under shared entrepreneurship are likely to be resented and even hated by labor unions and competitors. They are therefore likely to be challenged by boycotts, legal harassment, and violent opposition. These are problems requiring a lawyer's rather than an economist's solution. But an economist will recall that, in their day, the Luddites did not succeed in halting an innovation which was far less attractive to workers than shared entrepreneurship has the prospect of being.

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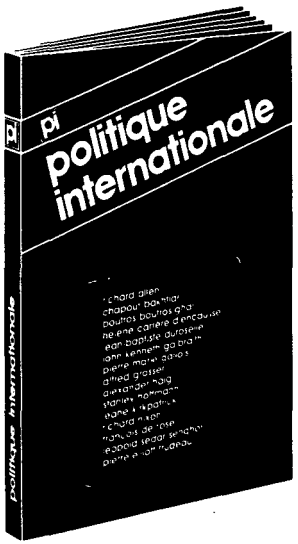

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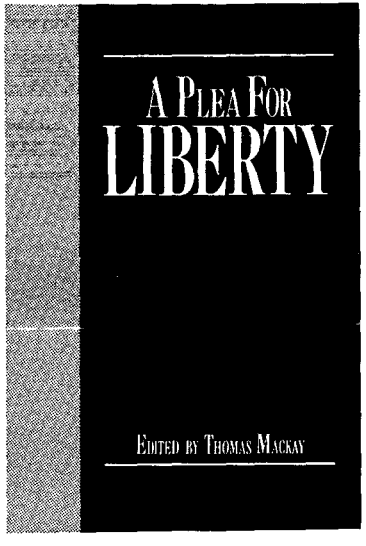

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Judging the Judges

DOUG BANDOW

Nearly a century and a half ago, Alexis de Tocqueville observed that "Americans have the strange custom of seeking to settle any political or social problem by a lawsuit." The courts have responded to this "strange custom" by effectively becoming continuous constitutional conventions, amending the Constitution to greatly increase government's power, and its intrusion in the lives of Americans. Reversing this judicial policy-making is a priority of the Reagan administration, but the Nixon administration voiced a similar commitment a decade ago, without success. The current deactivist movement will also fail unless it understands the dual dimension of the problem.

The judiciary plays a critical role in America's constitutional system. In addition to adjudication of private disputes, it is meant to restrain the other branches of government—to protect the people's rights from the government's desires. As James Madison explained in proposing the Bill of Rights:

> Independent tribunals of justice will consider themselves in a peculiar manner the guardians of those rights; they will be an impenetrable bulwark against every assumption of power in the legislative or executive.

This role has been badly perverted through misinterpretations—or noninterpretation—by the courts.[1] Statutory questions are of concern, but they can be solved by statutory amendment, and, more important, statutory restraint, if the will exists to solve the problem. The most serious problem is constitutional activism, since it is not so easily solved. It comes in two different forms.[2]

1. The judicial activism conflict is not between "strict constructionists and other constructionists, but between constructionists and nonconstructionists—those who do and those who do not see judicial review as a task of construing the living meaning of past political decisions...." John Hart Ely, "The Wages of Crying Wolf: A Comment on *Roe* v. *Wade*," 82 *Yale Law Journal* 920, 947-948n (April 1973).

2. Misinterpretation may be compounded by the assumption of traditional legislative and executive branch powers, through the use of mandatory injunctions, to remedy perceived violations of constitutional and statutory rights. In these cases, it is the remedy, not the right, that is at issue.

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One form, often stemming from the belief that the courts must act if no one else does,[3] is the unprincipled creation of new "constitutional rights" that were never contemplated by either the framers or amenders of the Constitution. For example, the U.S. Supreme Court has created "entitlements" out of federal benefits; the highest court in New York has declared a constitutional requirement to provide shelter for the homeless. Perhaps the most egregious example of judicial-policymaking was the invalidation of state abortion laws in 1973 by the U.S. Supreme Court in *Roe* v. *Wade*.

Cost of Activism

This judicial activism imposes significant costs upon society. Some new rights for a few are created at the expense of the established rights of the many. Demands for additional resources are created without meeting the responsibility of raising those resources, and without regard to any limits on those resources. Indeed, this arbitrary rights-creation process dramatically reallocates individual wealth, generally away from those who produced it, and to those who covet it. It has also significantly expanded governmental involvement in personal lives.

The second, and potentially more serious, area where judges have left their theoretical roles in the classroom, is with the unprincipled destruction of genuine constitutional rights, which *are* firmly rooted in the Constitution. Quite simply, the courts have abandoned their responsibility to protect individual liberties consistently. Rights which have fallen from judicial favor, despite their constitutional genesis, include the rights of gun possession and property ownership. In particular, for more than 140 years, from 1790 to 1937, the U.S. Supreme Court protected economic

3. Actually, legislative inaction is a form of action. As Larry Silberman points out:

> A lack of congressional action usually means a strong public consensus has not formed—which, in democratic theory, normally means that until it does, the government should not act, no matter how offensive the state of affairs to those who are 'certain' of the need for a governmental response. It does not follow that the political system is not working merely because debate on an issue does not lead to a federal program.

Laurence H. Silberman, "Will Lawyering Strangle Democratic Capitalism?," *Regulation* 21-22 (March/April 1978).

This is so even though the legislative and executive branches are far from perfect, and even though there is reason to believe that these branches often try to duck controversial issues by passing them to the courts.

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liberties, utilizing a variety of constitutional tools, including natural rights, the Contract Clause, the Commerce Clause, and the Fifth, Tenth, and Fourteenth Amendments. This constitutional responsibility was abandoned during the New Deal.[4]

The price of this abdication of fundamental responsibility has been high: massive expansion of government power and control, and concomitant diminution of individual freedom and economic growth. Indeed, constitutional activism is particularly dangerous precisely because it changes the fundamental law of the land without the consent of the governed. Such judicial self-indulgence, in conjunction with the traditional doctrine of judicial independence, poses a subtle, though serious, danger to our form of limited government and our fundamental liberties. Executive and legislative abuses are constrained by both popular will and judicial review; judicial abuses, however, are constrained by neither. As Supreme Court Justice Stone once wrote, "The only check upon our exercise of power is our own sense of self-restraint."[5]

The key to reversing judicial activism is to encourage courts to fulfill their constitutionally mandated role, while discouraging them from perverting that role. Therefore, the role of judicial review and the influence of the courts must be carefully redirected, not destroyed. There are four major options for controlling the courts: encouraging the judicial branch to relinquish its illegitimate authority, encouraging litigants not to appeal public policy defeats to the judiciary, creating institutional restrictions on the authority of the judiciary, and pressuring those judges who choose to act as legislators. Let us scrutinize them in turn.

Encouraging the judicial branch to relinquish its illegitimate authority. It

4. Conservatives have recently paid obeisance to the argument that these courts were enacting personal whims into law; George Will, for instance, has written of "the obduracy of appointed judges" during the New Deal. However, the courts were engaging in their constitutionally mandated duty of negative jurisprudence—that is, restraining government power. Not only did they limit infringement of consenting capitalist acts, but they protected other rights as well, including the right to a private education. In contrast, the courts are now engaged in affirmative jurisprudence—expanding government power—which has no basis in the Constitution. Bernard Siegan persuasively documents the intended constitutional role for the courts in his book, *Economic Liberties and the Constitution*, (University of Chicago Press, 1980).

5. There is no justification for the aura of deism that surrounds the judiciary, since it can be as capricious, partisan, and bureaucratic as the legislative and executive branches. As Justice Robert Jackson once noted, "We are not final because we are infallible, but we are infallible because we are final."

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is ultimately the responsibility of judges themselves to fulfill their constitutional mandate. Unfortunately, power, once acquired, seems only reluctantly surrendered; the judiciary will not soon voluntarily return to its intended role. What then?

First, and most obviously, people who understand and believe in the proper role of the courts should be appointed judges. It is necessary to focus on judicial philosophy, not particular issue positions; the court is to function as a bulwark protecting individual rights, not as a policy-maker.[6] The Reagan administration has made appointing such people a high priority, but with normal attrition, it will only be able to appoint roughly 20 percent of the 657-member federal bench. Moreover, though these nominees may seek to restrain the affirmative jurisprudential activities of the courts, ending some of the grossest examples of pseudo-rights creation, they seem unlikely to reassert the courts' critical, negative jurisprudential role, reversing the arrogation of power that has eviscerated economic liberties.

Second, the judicial philosophy of restraining government power needs to be reinstilled not only in sitting judges, but also throughout the legal profession, in practicing lawyers, faculty members, and law students. They are the future judges and litigants; they need to understand the judiciary's constitutional role as well.

Encouraging litigants not to appeal public policy defeats to the judiciary. Though ending judicial activism is ultimately the responsibility of the judiciary, others can also help. Litigants, for instance, should treat courts as the body to interpret the nation's fundamental law, and not to make public policy. Unfortunately, litigants are not likely to relinquish voluntarily an additional chance to prevail, especially when it is an opportunity not only to triumph, but to triumph *in toto*. Lawsuits avoid legislative compromises altogether, by creating constitutional rights that arbitrarily push aside other, competing interests.

Moreover, public policy litigation has been institutionalized by the so-called public interest law firms. These lawyers have joined what Irving Kristol has termed the "new class"—the elite which promotes, and benefits from, government intervention. It is not in its interest to promote judicial restraint.

6. This is a distinction that some conservatives failed to make when Sandra O'Connor was nominated to the Supreme Court. Whether she was for or against abortion was irrelevant. What was relevant was her conception of the role of the court, including whether it should promulgate policy as it did in *Roe* v. *Wade*.

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Litigants can be constrained through, for example, government restraint, since the government files and promotes a significant amount of litigation. Attorney General Smith has recently pledged that the Justice Department will "not advance arguments that promote judicial activism even when those arguments might help in a particular case." Congressional restrictions on the cases the Justice Department can bring, such as the prohibition on busing cases proposed by Senator Helms, also encourage governmental self-restraint. Additionally, access to the courts can be limited by tightening judicial doctrines, such as standing, which requires concrete injury to litigants, and general jurisdiction requirements, including the amount of money at stake. However, rationing justice by barring litigants with both good and bad claims does not address judicial abuses; rather, it disserves the intent of the Constitution by preventing citizens from protecting their genuine constitutional rights.

Reversing the Trend

Creating institutional restrictions on the authority of the judiciary. Despite even the best efforts of both judges and litigants, the judiciary is likely to exceed its role. If nothing else, some judges are likely to manipulate legal principles to fit personal biases. Therefore, it is important to institutionalize some objective controls over the judiciary. There are no simple ways to establish such controls and to restore the constitutional balance. Courts must not only be deterred from creating apocryphal rights, but they must be encouraged to protect genuine rights. Moreover, any restrictions must be enforceable; after all, the courts will ultimately interpret any such provisions.[7] The range of options include:

- Broad constitutional limitations on the power of government. Any amendment explicitly prohibiting certain forms of government conduct will be likely to reduce the constitutional ambiguities that give the courts discretionary interpretative powers. An "economic bill of rights," for instance, which banned state interference with private consensual economic activity, would reverse the five decade evisceration of fundamental economic rights. Such limitations would move a long way toward over-

7. For instance, for years the California Supreme Court created a terminological fiction to avoid the constitutional rule that all cases must be decided within 90 days. Only a couple of years ago did a literalist lower court judge bring the issue to a head.

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turning the worst judicial abuses, though they would not necessarily end judicial misinterpretation/noninterpretation of other constitutional provisions. Unfortunately, passing such amendments would be exceedingly difficult.

- Narrow constitutional limitations on the power of government. The anti-busing constitutional amendment proposed by Rep. Ronald Mottl (D-Ohio) in 1979, for instance, would have ended compulsory busing, reversing one area of a judicial activism. However, it would not have solved the general problem, and its defeat demonstrates the difficulty in amending the Constitution.
- Broad constitutional limitations on the power of courts. William A. Stanmeyer, President of the Lincoln Center for Legal Studies, argues that "we must develop a structural, institutional way either to make it as easy for the people to amend the Constitution as it is for the court—or to make it as hard for the court to amend the Constitution as it is for the people." He has proposed that Congress be empowered to nullify judicial rulings by a majority vote.[8]

  Unfortunately, such an override mechanism, like easing the requirements for passing constitutional amendments, or increasing the size of the court majority necessary to void statutes, is doubleedged. They all make it easier to prevent or reverse the judicial creation of phantom rights; but they also make it more difficult for courts to protect genuine constitutional rights. Conservatives should think long and hard before so subjecting fundamental individual liberties to congressional and popular majority control.
- Narrow constitutional limitations on the power of the courts. California voters, for instance, passed Proposition 1 in 1980, to prevent California judges from ordering busing except when required by the more restrictive U.S. Constitution. It ended the bitter Los Angeles busing conflict. The value of such measures is very real, though they do not solve the underlying problem of judicial activism. They also potentially set a precedent that could be used in limiting the courts where they are fulfilling their legitimate constitutional role.
- Statutory limitations on the courts. Some have proposed limit-

8. This and other interesting proposals are contained in: Patrick B. McGuigan and Randall R. Rader, eds., *A Blueprint for Judicial Reform*, (Washington, D.C.: Free Congress Research and Educational Foundation, 1981).

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ing the remedies available to the judiciary, by, for example, forbidding the federal courts from ordering the busing of students for racial reasons. Such measures remedy specific judicial abuses, but they also present a precedent for eviscerating judicial remedies to real constitutional rights violations. Moreover, they may be ruled unconstitutional; if the courts hold the Constitution requires busing, the legislature probably cannot override them.[9]

Also of dubious constitutionality is the so-called Human Life Bill, which attempts to substitute legislative definitions for judicial definitions, thereby overturning *Roe* v. *Wade*. Unfortunately, if the Congress can overturn judicially created illegitimate rights by a definition, it can equally easily overturn judicially protected legitimate rights.

The third, and most dangerous, statutory remedy is withdrawing jurisdiction over particular issues from the federal courts. There are now more than 30 bills pending in Congress, based on Sections 1 and 2 of Article III of the Constitution, to strip jurisdiction from the federal courts over the issues of busing, school prayer, and abortion. Such legislation may be unconstitutional. Article III clearly gives Congress discretion to regulate jurisdiction, but some scholars have argued that it applies only to jury fact-finding or nonsubstantive issues, or is otherwise limited.[10] Even if such measures are not unconstitutional, they are anti-constitutional, setting a precedent that could be more damaging than the offending Supreme Court decisions. The problem of judicial activism is not one of jurisdiction; it is one of decision.

The Founding Fathers *did* intend that the federal courts protect our fundamental individual rights. Removing jurisdiction threatens this vital role. Indeed, the very precedent some conservatives point to justify their proposals—the Norris-La Guardia Act, which, among other things, bars federal courts from enforcing non-union

9. Proponents argue that restricting judicial remedies is a legitimate "regulation" authorized by Article III, Section 2 of the Constitution, and part of the "appropriate legislation" intended to enforce the 14th Amendment under section 5 of the Amendment. It is not, however, clear how broad Congress' discretion is in either instance.

10. In a 72-page article, New York University Professor Lawrence Sager concludes that Congress' discretion in granting and withdrawing jurisdiction is subject to serious constitutional restrictions. Lawrence Gene Sager, "Foreword: Constitutional Limitations on Congress' Authority to Regulate the Jurisdiction of the Federal Courts," 95 Harvard Law Review 17 (1981).

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employment contracts—is a perfect example of the misuse of substantive jurisdictional restrictions. Morever, such measures would not solve the underlying problem of judicial activism. Indeed, since state court judges would likely feel bound to follow existing Supreme Court precedents under the Supremacy Clause, past activist decisions would be frozen into law. To the extent state court decisions varied, federal constitutional protection would vary by state.

Nudging Judges

Pressuring those judges who choose to act as legislators. If all else fails, one could try to "nudge" the judges in the correct direction. There are a range of pressures, starting with simply winning elections. As former Supreme Court Justice Benjamin Cardozo once observed, "the great tides and currents which engulf the rest of men do not turn aside in their course and pass the judges by."[11] Another form of pressure can be applied during the nominating process. Questioning the nominees on judicial philosophy not only helps legislators evaluate the nominees, but also helps impress upon the nominees their constitutional duty. Despite the anguished cries of some, such questions are legitimate, even necessary.

Pressure can also be enhanced by stripping away some of the secrecy that surrounds the courts. Restrictions on TV cameras, radio broadcasting, still photography, and tape recording are not justified. Neither is the reluctance of judges to explain why they disqualify themselves, the reasons behind their *per curiam* opinions, and their potential conflicts of interest. Additionally, pressure on judges can be enhanced by monitoring, publicizing, and judging their records. It is commonly accepted that this should be done for incompetence and misbehavior; it should also be carefully done for the substance of their decisions.

Constructing an effective control mechanism first requires making judges' records available to the public and legislators. Despite the potential for distortion, the importance of the judiciary, and its decisions, dictates that the process should be well-publicized, and, hopefully, understood. Any effective mechanism must also include disciplinary procedures, which are now virtually non-

11. This is not to say that this is desirable, since the Constitution is intended to protect individual rights against majoritarian whims. It merely means that it is important to win elections.

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existent. One procedure is retention elections by voters (or perhaps reconfirmation by legislators). Twenty states now have retention elections, and proposals are circulating for federal retention elections.

Such elections create a small danger of politicizing the judiciary. But the national experience is that few judges have failed to win retention. However, it does provide a last resort weapon to use against gross judicial abuse.

More powerful weapons are contested and recall elections, which many states already utilize. Experience indicates that contested elections are almost as automatic as retention elections—in 1980, for instance, only 1.6 percent of the incumbent judges up for election in California were defeated. However, contested and recall elections pose a much greater threat to the legitimate role of the judiciary. Judges are to impartially adjudicate factual and legal disputes, and to protect fundamental individual liberties from majoritarian abuse. But contested elections necessarily turn judges into politicians, forcing them to raise money, seek support from interest groups, and act like most other politicians.

Indeed, by placing questions of fundamental rights on the political agenda of the next election, such procedures vitiate the institution intended by the Founding Fathers to restrain the growth of government. Experience bears this fear out, with some disturbing instances of unrestrained majoritarianism. In California, for instance, voters almost recalled the judge who prevented the state university system from firing Angela Davis for political reasons, and defeated the lower court judge who ordered busing in response to the state supreme court's interpretation of the California constitution.

Of course, it may be argued that judges have already politicized themselves, and they have. But the answer is not to *increase* the level of politicization, further threatening the legitimate role of the judiciary. Instead, we must depoliticize the courts, returning them to their originally intended role.

Finally, the ultimate form of pressure is resistance and disobedience. The power of the judiciary is based only on respect. Alexander Hamilton once wrote that since the judiciary possessed neither executive sword nor legislative purse, it was the "least dangerous branch." He has been proved wrong, but only because the executive sword and legislative purse have generally enforced the judicial decisions. This issue is not new. In 1832 the U.S. Supreme Court ruled for an American Indian tribe and against the state of

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Georgia; Georgia refused to comply, and President Jackson is reported to have said, "John Marshall (the Chief Justice) has made his decision; now let him enforce it." During the Civil War the military refused to comply with a writ of *habeas corpus* issued by Chief Justice Roger Taney to free a citizen from military detention. Massive resistance followed *Brown* v. *Board of Education*.

Resistance is obviously the ultimate check on irresponsible courts, but it is also the ultimate check on responsible courts. Indeed, the history of disobedience to court decisions is a history of expansive government power refusing to be restrained, not of restrained government power refusing to be expanded.

Precisely because judicial activism is simultaneously doing too much, and too little, conservatives should not attempt to eviscerate the judiciary, or subject its decisions to review by majoritarian institutions. An independent judiciary is the best means of protecting the liberty of all Americans. Indeed, the judiciary must have the final say, because:

> Separation of power between judicial and legislative branches is not intended to result in a contest over which one better reflects the better conceptual approaches of the day. The difference between the two branches is fundamental; it lies in functions. The legislature is the protector of the governor and the judiciary of the governee. The legislative equates the public interest with the creation of laws; the judiciary, with the presence of liberty. Each must look to its constituency in the exercise of its responsibility. However, finality under our system must be with the branch of government charged with safeguarding liberty.[12]

Thus, we must take measures that will recapture, not destroy, the judicial branch. Changing the attitudes of judges and litigants is a start. Creating carefully tailored institutional limitations and restrained pressure should follow. There is no easy solution.

In fact, even recapturing the judiciary from the forces of expansive government may not be enough, for it was probably inevitable that once the rest of the political system embarked on a course of big government, the judiciary would follow. Thus, the courts likely will ultimately return to their proper role only when the rest of the political system has foresworn expansive government intervention. Once it has, the judiciary will again follow.

12. Siegan (note 4) at 317.

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Tales from the Public Sector

*Diary of a Bureaucrat**

My first job after law school graduation was at a large, prosperous law firm. Its clients hailed from equally affluent insurance agencies, banks, real estate offices, and big corporations, which expected at $100 per hour the best—or at least nicest-looking—legal talent they could buy. Accordingly, not only did the law firm recruit its young associates from the finest schools, but it spent thousands of dollars on furnishing their offices and other physical surroundings once they were safely named on the continually growing letterhead.

Every lawyer received a large, windowed office with paneled walls, thickly carpeted floors, solid walnut furniture, and dictaphone equipment. Attractive young secretaries sat outside those offices, answering telephones, typing, pouring coffee, and smiling effortlessly. Soft music wafted over artfully-concealed stereo speakers. A receptionist half-hidden by freshly cut flowers greeted lawyers and clients when they arrived at the office, and wished all a gentle good night as they left in the late evenings. A squadron of technicians supervised the office computers. Five full-time workers staffed the library, three men ran the Xerox machines, and one woman was on the payroll just as a planner of department luncheons.

In short, the office purred in efficiency, enabling the attorneys to toil for long hours uninterrupted by internal disturbance. Occasionally, firm-financed diversions camouflaged the hours of labor: a black-tie dinner dance in the spring, a picnic in the summer, Friday night beer blasts in the winter. Despite this comfortable, almost insulated existence, an irksome itch to practice public interest law preyed on me after a few months of being an associate.

"I'm going to be a civil rights lawyer for the government," I was able to announce triumphantly to my colleagues after a brief job search that spring. "I'll be enforcing the laws that forbid discrimination on the basis of race, sex, or handicap."

*The office in question is the Department of Labor as it was 18 months ago. The account in this article is true; only the job titles have been changed to protect the guilty.

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"So you'll be riding a white horse while the rest of us do evil, eh?" sneered a partner in the corporate department. "You wait and see how you feel in another year."

It took two years. Two years in a way station of federal mismanagement, inefficiency, and bureaucratic ineptitude, two years in what is surely the worst-managed office in this country made me realize that there is indeed an ugly monster consuming—and utterly wasting—the taxpayers' money—year in and year out, president after president, Republican after Democrat.

The first phenomenon I observed as a civil servant was that many government offices are physically modern-day sweatshops. The division for which I worked had only five windowed offices, which were given to attorneys who had spent at least ten years with the agency. A lucky few also received offices with back doors, which meant that they could escape at noon every Friday, unobserved by the rest of the staff.

The rest of us worked in filthy offices, the size of broom closets. In order to find out whether it was rainy or sunny outside at the end of a day, I would often have to call the Weather Bureau from my office. There were simply no common windows for the staff to enjoy—a feature that was considered a waste of space which could be better used as a reward to supervisors and management.

The offices also lacked hot water, air-conditioning on hot days, and heat in the winter. This deprivation of physical comfort caused attorneys to spend a disproportionately large amount of time musing about other offices: "Did you hear that X is leaving to go with a firm and is getting an office with windows?" "I went to see my doctor today and even his secretary has an office with windows and nice wallpaper." "Hey, why don't we all go to New York sometime and eat at Windows on the World."[1]

Besides windows and an adequate air ventilation system, the other scarce commodity was light bulbs. Each attorney's office had four fluorescent fixtures, but government regulations—supposedly complying with federal energy policy—only permitted two to be lit at a time. If one flickered out, which it seemed to do at least twice a month, the office would be plunged into total darkness. Since the average waiting time to get a bulb changed was thirty days, lawyers hoarded light bulbs as if they were diamonds and stealthily climbed their own ladders, brought from home, to

1. Windows on the World, a restaurant atop the World Trade Center in New York City, has spectacular views of the city.

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fix their own lights. This was probably contrary to an obscure regulation promulgated by the Occupational Safety and Health Administration (OSHA), but so was going blind.

The second phenomenon I observed was that our office's staff spent most of its time figuring out how little work could be done in an eight-hour day. Official duty went from nine to five-thirty. Everyone would straggle in at least fifteen minutes late in the morning, however, and immediately head to the cafeteria for coffee. These coffee breaks would last as long as forty-five minutes. The rest of the morning would be spent on the telephone—to friends, spouses, doctors, real estate agents, and plumbers. Lunch would never last less than two hours, at which time the entire office would leave together, abandoning the telephone switchboard and its incoming jam of telephone calls.

Disco Time

An office administrative assistant, who had one of the few working spaces with a back door, installed a refrigerator where a file cabinet was supposed to be. As a result, she was the acknowledged leader of the social set, and hosted an informal club of staffers every afternoon from three to five. Men and women from all walks of the office would gather in her room, turn on a radio, and disco enthusiastically. "Quiet down!" the receptionist would sometimes yell. The noise apparently interfered with her favorite soap operas, which she watched on a table television assembled for her by a chief attorney in the office.

After a few of us regularly complained about the merrymaking, suggesting—hat in hand—that it was difficult to analyze cases while the rest of the office danced, the assistant to the under counsel announced that he had a solution. Henceforth, he proclaimed boldly, the administrative assistant would actually be put to work. Not only that, he whispered furtively, but legal work: assisting a newly-hired handicapped lawyer with his research.

The administrative assistant refused indignantly, arguing that assisting the handicapped was not in her job description. After a week of hiding out in her car in the department's parking garage —also not in her job description—and realizing she would not be disciplined, she returned to her office and resumed the frantic parties. The handicapped lawyer would patiently spend an hour or two waiting for her, and, getting no response, would resort to knocking on her office door and screaming her name over the music. "What is it?" someone would finally yell. "Go'way, she's not here."

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This routine continued for three months. The administrative assistant received fifteen thousand dollars to dance. The handicapped lawyer received over thirty thousand dollars to sit in his office, completely idle. Again, the assistant to the under counsel took a decisive step. "You're just going to have to help him," he announced authoritatively one day. "I insist."

"One more word from you," the administrative assistant snapped back, "and I'll slap your little faggot ass."

The assistant to the under counsel summoned every ounce of power he had to reply. "Oh boy," he whined in protest, "you're very, very rude."

So ended that incident. The handicapped lawyer sat idly for another six months, until another bold office decision brought him and the administrative assistant together at last. The under counsel, who never emerged from his big windowed office and never bothered to remember the names of his growing staff, issued a proclamation that four of us, including the administrative assistant, would lose our offices in order to create space for two larger offices, which would accommodate two deputy assistants who had not yet been hired and might never be hired, depending on a budget that would not be submitted for at least another year. The plan called for the administrative assistant to share the handicapped attorney's office. The rest of us would have to sit in a library that was scheduled for demolition within a few weeks, since so many lawyers sat in there, there was really no room for books. Furthermore, a toilet flooding in the nearby men's room had soaked most of the major civil rights treatises some months earlier, and the smell of the mildew bothered the executive assistant of a deputy assistant secretary. The books would not be thrown out, only put in storage, and since they would not be thrown out, could not be replaced due to a tight budget. So really, the library was just excess baggage, anyway, explained a representative of general services, who was planning a memo regarding the need for a memo to announce the impending demolition.

The under counsel did not know how long we would have to sit in the besieged library, or where we would go once it was demolished. This was not his area of expertise, he protested; we would have to ask the office planning consultant.

The office planning consultant was a former manager of a supermarket, who had opted for the security of the federal government. He knew nothing about offices, but did know a lot about meat counters, a fact which was duly noted by personnel when

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they assigned him a grade rank. He announced that after much study, he had decided that he would erect seven partitioned cubicles in the space where we had formerly stored broken typewriters. These cubicles, composed of the finest cardboard and plywood that government funds could buy, would be our new attorney offices.

When we complained about the din, he introduced us to ceiling speakers emitting white noise, a continual drone that was supposed to have the soothing sound of the ocean, but was instead a cross between a sputtering static and a rig operator's drill. When we complained about the lack of privacy—the cubicles had no doors as well as windows—he winked and asked why we had anything to hide. When we complained about the lack of professionalism, he pointed out that we were working for the federal government, after all.

Sexual Harassment and Death Threats

In the meantime, the administrative assistant had nowhere to hide. She sat at a desk a few feet from the handicapped lawyer, who had the audacity to ask her to do some work. In protest, she filed a grievance with OSHA officials. Sharing an office with the attorney, she charged, was injurious to her health. He deliberately did not use his cane, the better to bump into her and injure her arms and neck, she claimed, and added that he often picked his nose and scattered the contents. Once, her allegations continued, he sneezed into the telephone when he was handing it to her to use. She simply could not continue under those conditions.

When she did not get an immediate response to her complaint, she filed another grievance, charging sexual harassment. She alleged that he did not deliberately use a cane, the better to bump into her and cop a feel. The labor relations office did process this grievance, which is still pending and waiting for a final decision. The administrative assistant was given another office in the interim, where she still holds court.

While her claims exaggerated the type of climate that existed, they did indicate to a certain extent the type of hostility that characterized lawyer-support staff relationships. Despite the fact that it was a civil rights office, our division played host to more black-white conflict than the University of Mississippi had in 1963. The majority of lawyers were white. The majority of secretaries were black. Somewhere in the past, this fact had generated mutual and unabated suspicion, dislike, and a total lack of cooperation. On

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one particular afternoon, a secretary threatened to kill her supervisor. The supervisor then methodically wrote a memo to the under counsel, asking if there were any funds in the office budget for security. He said no, not unless there was a *real* emergency, a death threat being a common office occurrence. The incident was forgotten. No one suggested firing the secretary. In the government, that is not an easy process. There are so many hearings and investigations, that no one wants to get involved. Therefore, bad employees generally can stay rooted in their jobs forever.

In the meantime, the new office cubicles for attorneys, hailed as the wave of the future, were erected in six days. On the seventh day, the drawers collapsed and the desk chairs fell apart. No one ever fixed them. Instead, attorneys grew accustomed to storing their files on the floor and not leaning back in their seats. A year and a half after their construction, an excess of staff forced a re-evaluation of the office situation. The under counsel issued a new proclamation, announcing that the larger offices built on the heap that had formerly lodged us vagrant four, and now empty for eighteen months, would be torn down in order to accommodate four smaller offices identical to those demolished so many cubicles ago.

Hypochondria and Schizophrenia

What substantive work was being accomplished in the midst of this architectural innovation? In one memorable week, I received two handicap cases deemed priority work. In the first, a woman who took sick leave 200 out of 365 days in 1978 and was then fired, charged her employer with discriminating against her handicap of chronic absenteeism. In the second, a factory worker, disgruntled with his boss, lured him into a car and began to beat him. After the employer escaped, he fired his assailant, who then filed a complaint with my office. Anyone who would hurt his own boss, the assailant charged, must be a paranoid schizophrenic. Therefore, firing a paranoid schizophrenic was violative of the act that forbids discrimination against the handicapped.

This case, which should never have reached our office, came with a note attached from another office, suggesting that its novel legal issues might make it a priority case for enforcement proceedings. I therefore spent one day writing a case analysis explaining to the attorney in the other office why the case was absurd and unworthy of our limited time. Three people ranked above me on the hierarchical ladder had to read my analysis. The first person made additional comments. The second person made comments about the first person's comments. The third person, who let the analy-

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sis sit on his desk for two weeks, ordered all the comments to be expunged and the analysis left the way I had originally written it. He then signed his own name to my finished work product.

What should have been a routine matter dismissed in a day became a source of intensive study for one month, involving the time of four full-time attorneys. Another case given top priority in our office served as an even more classic example of waste and mismanagement. In 1970, a female professor in the Midwest was fired from her university on allegedly sexist grounds. She filed a sex discrimination complaint with the Department of Health, Education and Welfare (HEW), which eventually awarded her a large settlement. She agreed to the settlement but still filed an appeal for additional damages with my office, claiming that HEW coerced her into accepting the money. In typical government fashion, her appeal became lost in a pile of paperwork for six or seven years. Only a federal court order prompted my office to investigate her case. I reviewed her files extensively and recommended that we not award her any more money, based on the facts in the case as well as on her educated willingness to accept the settlement.

Again, three people reviewed my analysis. The chief attorney in our federal agency held a top-level meeting to discuss my recommendation. Two other government offices were invited to make comments about the case. The files were passed up and down from bureaucrat to bureaucrat like a zipper on a much-used coat. The argument favoring the reopening of the case held that the plaintiff had suffered unemployment and economic hardship for ten years and should not have to wait any longer for additional relief. The government's shuffling and reshuffling, however, had added almost another two years to the waiting period of the plaintiff. And after two years, the department decided to adopt my decision to drop her case, after all. Unfortunately, the needless amount of time spent on making decisions in these cases—many of them frivolous to begin with—is a common occurrence in an agency that has too many Indian chiefs, whose work consists of reviewing everybody else's work.

The only matters that the office attended to quickly were congressional inquiries, usually in the form of letters asking about the progress of a particular constituent's case. A staff attorney would handle the response, which was usually rewritten five or six times by a long line of supervisors and administrators. Suddenly a case that had sat on someone's desk for six months would be dusted off and assigned to a team for lawyers to review; instantly a complaint

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would be drafted for immediate enforcement. The more important the legislator, the speedier the action on the constituent's case.

Oversight hearings on Capitol Hill also prompted the division to take stock of its work product and churn out more cases. One memorable summer my division realized, in preparation for an oversight hearing, that fifty or so regional cases were just floating around the office without any study or resolution. The department counsel demanded that the under counsel assign lawyers to make decisions on those cases within forty hours. The under counsel developed pneumonia. Only the assistant to the under counsel remained to carry out orders. The department counsel said that the assistant to the under counsel could not be trusted. That was why he had been made an assistant in the first place. Therefore, the department counsel made the decision to fly the attorney of another office and part of his staff to our office to supervise the processing of those fifty cases. Their supervision consisted of reading the files, writing memos like "this is a good case for enforcement" or "this is a bad case for enforcement" and sending them all to other offices for final filing. Then the entire visiting entourage flew back to their office—thousands of miles away.

Waste versus Heresy

When the assistant to the under counsel sat down later to compile the number and names of the cases that had been processed by the visiting group, he realized that no one had bothered to keep any sort of list. No one knew what fifty or so cases had left the office or where they had gone. The group flew back to our office. While we abandoned the rest of our work, our division spent the next few days trying to reconstruct what had happened exactly a week earlier. Then the group flew home again.

This kind of sheer waste of money was a standard practice that increased, never abated. In 1978, our under counsel announced that he had noticed that our office, ostensibly organized to promote civil rights, lacked an attorney of minority origin. With great fanfare he introduced us to a new recruit, who indeed looked very much like a minority candidate. On the very first case assigned to him, however, he committed the serious mistake of signing his own name to a letter. This act of heresy prompted a memo from his supervisor, reminding her staff not to sign any letters with their own names, even if they wrote the letter. Next, the enthusiastic recruit made a telephone call to a United States Attorney on his own initiative, suggesting that they meet to discuss a case. His

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supervisor fired off a new memo, reminding her staff in angry language that they could not make telephone calls without prior clearance.

The new attorney dared to question her policy. She responded by placing a warning letter in his personnel file. Next she stopped assigning him work, as a punishment for having done work in the first place. She loudly declared that he could not be trusted with either pen or telephone. That suited the attorney fine, since he was behind on two *Newsweeks* and three *People* magazines. All this, and $25,000 per year. When he finished reading his magazines in his cubicle, and still received no assignments from his supervisor, he took stock of his situation and took another job to fill the hours. He checked into our office at 8:45 A.M., left at 8:55 A.M., and returned promptly at 6:00 P.M. Many staff people began to praise him for the long hours he was suddenly spending at the office, commenting on his working past official time every single evening.

If he had not decided to move to the West Coast, he probably would have received a merit promotion. As it was, it took three weeks for anyone to realize that he had indeed left our office for good. Everyone just assumed that he was no longer receiving any work again, and had decided to ease his work schedule. An astute colleague, however, noticed one day that his ashtray had been empty for quite a while. Someone else then pointed out that the *Newsweeks* stopped on a certain date.

If there is method in this madness, it is probably misfiled in a forgotten cabinet, signed by five high-level administrators who played no role in its inception. In the meantime, civil rights is being played out against a backdrop of internal racial strife, petty flaunting of status, and gross squandering of government money and legal resources.

I am not generally prone to seeing symbolism in everything, but I had to smile when I found out recently that the cubicles are going to be redecorated soon with furniture coming from the United States Bureau of Prisons.

In my office I used to display a sign that showed a pool of small fish surrounded by menacing sharks. In bold letters the sign read: "Decisions usually involve risk."

An administrator shambled over to my desk one day and peered at the sign. "Decisions? Risk? Here? This is the government." And with that he walked away chuckling, probably to get another cup of coffee.

Mindy Farber

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Book Reviews

Gentlemanly Pursuits

THE PURSUIT OF VIRTUE AND OTHER TORY NOTIONS. *By George F. Will.* (Simon and Schuster, New York, 1982) $16.50.
THE GENTLEMAN IN TROLLOPE: INDIVIDUALITY AND MORAL CONDUCT. *By Shirley Letwin.* (Harvard University Press, Cambridge, Massachusetts, 1982) $20.00.

There is a certain affinity between these two books. Shirley Letwin addresses herself to the code of the gentleman in nineteenth-century England, using Trollope's novels as her prime source of study and insight. She is highly respectful of this code of morality and manners. "I myself have come to think that the morality of a gentleman offers a more complete and coherent understanding of the human condition than any other known to me." The gentleman, in distinction from the aristocrat, was thought by many to be peculiar to England, the rise from class to class virtually unknown on the continent. In his attitudes toward religion, morals, politics, women, family, recreation, and education, the English gentleman was a distinct social type in the Victorian world and after.

It is evident from both his newspaper columns and his regular appearances as an analyst on television news shows that George Will thinks highly of the Tory gentleman's code, and manifestly this code is his touchstone in the work of separating the good from the bad, the noble from the vulgar, and the enduring from the meretricious. He is by his own admission Tory, tracing his intellectual lineage back to Burke, Newman, and Disraeli. Shirley Letwin remarks upon these three minds as exemplars of her code. Burke said that everything great in English civilization "depended for ages upon two principles—the spirit of a gentleman and the spirit of religion." Disraeli was emphatic that only gentlemen should rule in government, and Newman's classic on the university might well be described as a prescription for a gentleman's proper education. Without doubt it is the absence of the gentleman from so many of the corridors of power and of affluence in our age that troubles George Will the most, though he wastes little time in lament, for, as Shirley Letwin puts the matter, the gentleman, "however uncongenial he may find his neighbors or his fortune...will always be thoroughly at home in the human world because he can enjoy its absurdities and has no ambition to overleap mortality." Mr. Will does not profess to understand other writers' use of typewriters instead of fountain pens in their crafting of sentences nor the penchant of most Americans for the latest in automobiles instead of 1969 Oldsmobiles, but he maintains his cheer and refrains from outright indignation.

George Will's book is a compilation of just under a hundred and fifty of his columns which have appeared during the last five years in 360

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newspapers and in *Newsweek*. By his own accounting in the table of contents, they deal with conservatism, human rights and wrongs, life and death, totalitarianism, politics and the art of government, private and public lives, prejudices, and the microcosm of the world that is Mr. Will's own family. The book sparkles with insight, wit, and apposite quotations one doesn't ordinarily expect to see in a column.

Mr. Will doesn't try to hide the likes and dislikes which spring from the code of manners and morality by which he lives and thinks. He likes the family as an institution and respects religion in most of its manifestations, even though he appears to be secular minded himself; religion for Mr. Will is the indispensable vessel of the morality that separates man from the brutes. His respect for civility is high, and some of his more lacerating columns deal with those in politics and business who commit egregious breaches of this civility. He honors tradition, though not blindly or indiscriminately, and he has an abiding interest in the social bond and in its inherent fragility. He scorns egalitarianism not only for its intrinsic violation of the natural differentiation among human beings but for the shocking inequalities which are brought about by bureaucratic attempts to achieve it on a mass scale. He cherishes liberty, which, along with Burke, he sees possible only in the contexts of individual and social restraint. He does not like the consequences of libertarian use and abuse of the First Amendment. Finally, Mr. Will has a profound feeling for the nation, its proper governance and its necessary protection from enemies inside and outside the country.

George Will's general dislikes may be inferred from the foregoing, but there are certain animadversions of a more concrete kind which should be mentioned. One of them is abortion, though not, I gather, absolutely. What he finds appalling is the veritable plague of abortions that was brought about by a majority decision of the Supreme Court in 1973, in the historic *Roe* v. *Wade* case. At a single stroke the Court wiped out the customs, conventions, and laws of all fifty states. For decades, centuries indeed, these had limited the incidence of abortion. Abortion lay in a kind of twilight zone of morality in America. Few Americans actually approved of it, but its immorality lay in a chain or scale of other immoralities which included conception caused by rape or incest, birth outside wedlock, and so on. History, Hegel's cunning of reason, often disposes of moral issues or at very least keeps them within civil boundaries. But any such possibility was destroyed when the Court wiped out all localism, all custom, all expediency (in Burke's sense of the word), substituting national centralization of a single ethic regarding abortion—the ethic of free, unqualified abortion. The result might have been foreseen: the destruction of the twilight zone and the creation of two increasingly absolutist armies of righteousness, the Pro-Lifers and the Pro-Abortionists, the latter including a rising number who flaunt abortion as the symbol of woman's escape from the "tyranny" of motherhood within the family. As Mr. Will observes, not since the Dred Scott decision on slavery in the territories in 1857 has a Court decision polarized so drastically the American people.

Judicial activism in general offends Mr. Will's sense of the proper constitutional separation of powers. Such imperialism cannot be blamed

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entirely on the judiciary, for all too often Congress, cravenly, leaves to federal judicial action matters which are felt too hot to touch. Judges at the federal level do not have to run for office, enjoy life tenure of office, and cannot be removed save for egregious, impeachable offense. The result is a federal judiciary in our time, as Mr. Will points out, engaged in the running of school districts, prisons, and assorted other public enterprises once thought to be subject to democratic, that is, voter, control, whether directly or indirectly. Mr. Will might have likened today's federal judge to Jeremy Bentham's omnipotent and omniscient Magistrate—centerpiece of a utopianism as rationalist as it was repellent, one that banned everything electoral, starting with Parliament, and everything in any measure traditional, and that saw human redemption in the hands of a sole, all-powerful, unchallengeable Magistrate. Our federal judges haven't acquired Benthamite power yet, but the Ice Age is young, and they have come a long way. If there is anything in contemporary practice in government that would absolutely astound the Framers, it is the number and the virtually sovereign powers of federal judges who wield power that Burke would regard just as "arbitrary" as that which he found in the British government that brought on the war with the American colonists. The sometimes wanton intrusion of the federal judiciary into areas traditionally governed by the people through their elected representatives, on school boards, city councils, state legislatures, all the way up to Congress, represents one of the two great depressants of representative democracy in our age, the other being, of course, the federal bureaucracy.

Liberalism, in its Galbraithian form, is another easily discernible prejudice in Mr. Will's view of the world, for which we may also honor him. He correctly sees the double-headed nature of contemporary liberalism: on the one hand ready to endorse any and all uses of the First Amendment, even those where "free speech" manifests itself in degrees of pornographic horror rarely if ever permitted in public before our time; on the other, ready, nay, eager, to invade through the bureaucracy almost every area of genuine and vital liberty—family, local community, school, property, and so on. Contemporary liberalism has become a composite of Mill's "one very simple principle" (but without Mill's immediate qualifications) and the liberalism of the French Enlightenment, overwhelmingly committed to *étatisme*.

Finally, deeply sensitive to the world crisis that the rise to superpower status of the Soviet Union has brought with it, Mr. Will is generally hostile to the policy of detente and, needless to say, to nuclear freeze groups and other peaceniks who demonstrate weekly at rallies, flaunting their utter indifference to the Soviet Union and its mission of stalking the world—so far as American deterrent power permits—in the interest of Muscovite primitivism and Marxist-Leninist proselytization. Our antiweapons enthusiasts talk of bilateralism in their purported quest for peace, but, as Mr. Will suggests, they clearly think unilaterally. That is, let the aggressive militaristic United States disarm first, and the gentle folk of the Kremlin will be only too happy to follow.

Such a balance sheet of judgments as I have drawn up briefly from George Will's volume is not likely to distress many readers of this jour-

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nal. There are reflections, though, here and there, which will, if not actually distress, provoke. My sense is that Mr. Will has been moving fairly steadily in recent years to an increasingly nationalist conservatism, one in which a larger role of government in moral as well as economic and social affairs is held up as a necessary check upon the tides of anarchy, which at times seem formidable to our social order. I don't for a moment imply that Mr. Will is any closer to Galbraithian liberalism in this respect than he has ever been. He is no liberal, thank heaven, and on his side is the fact that conservatism, especially in its English Tory manifestations, has not seldom seen fit to carry government into the marketplace for purposes of either humanity or order. No one loved the English nation in its historically formed entirety more than did Edmund Burke, whose indictments of French Revolutionary *étatisme* form the seed bed of modern European conservatism. In perhaps the most celebrated single passage in Burke's *Reflections on the Revolution in France*, the proposition is laid down that while society is indeed a contract, "the state ought not to be considered as nothing better than a partnership agreement in a trade of pepper and coffee, callico or tobacco or some other low concern...It is a partnership in all science: a partnership in all art: a partnership in every virtue, and in all perfection."

It is this incontestably Burkean temper that appears to have overridden in some measure Mr. Will's earlier—and also Burkean—distrust of *étatisme*, the kind seen in our appalling army of bureaucrats who, paraphrasing Burke, deal with our society "like a country of conquest." Thus Mr. Will ruminates in some melancholy on the fact that under the influence of the modern market-obsessed mentality, government dares "to concern itself with soybeans but not virtue." In a column written after this book went to press, he complains that "conservatives worry too little about the commercial dynamism they nurture." Moreover "too many conservatives have a crabbed and dispiriting attitude toward central government," and Mr. Will calls for a Burke or Daniel Webster, someone to speak of the nation with the soul of a poet rather than a corporate controller. He is almost contemptuous of Adam Smith, an attitude that would trouble Mr. Will's mentor Burke a great deal. The correspondence between Burke and Smith—who were intimate friends as well as mutual admirers—makes very clear indeed Burke's admiration for, and intellectual congeniality with, *The Wealth of Nations*. Mr. Will argues that Adam Smith is to a substantial degree responsible for the "sharp distinction between society and government, and the seeds of hostility toward government." But he is too much the political scholar as well as analyst and critic not to be able to recall that that distinction is very deep in Western social thought, especially from the High Middle Ages onward. Bodin, Althusius, Locke—but not Hobbes and Rousseau—are among those who also make a distinction between society and government or state binding.

The problem of government today, Mr. Will writes, is "not so much that government is 'too big' as that government is considered a low and hostile thing." Almost every poll reveals the truth of the latter; but hasn't there been a fairly direct ratio during the last half-century between the development of the two—large government and disliked gov-

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ernment? Familiarity doesn't breed contempt; familiarity *is* contempt. And no one can reasonably doubt that government and citizenry have become almost obscenely familiar in our century, thus eroding the possibility of mutual respect. What Lamennais wrote of the ancient Roman Empire is apposite to the United States today: apoplexy at the center, anemia at the extremities. No one wants a national government that is indifferent to virtue—though heaven knows, the record suggests that willy-nilly we have come close to achieving that during the last fifty years—but no one of decent regard for the natural differentiation and pluralism of life wants either a government that thinks of nothing else but virtue. The lamentable fact is that political prescriptions which begin with Plato or Rousseau always, in practice at least, end up with the bureaucrat and policeman.

I have no worries of George Will, were he to become our Burke or Disraeli in these troubled times, winding up as Grand Inquisitor, and I have no doubt that at greater length than his lapidary columns permit, he could provide thoughtful answers to the questions I am raising. He believes that we have an "impoverished sense of politics" and he proposes, in effect, that government devote at least as much concern to virtue as to soybeans. But which arm of our national government should be politically force-fed and entrusted with responsibility for our virtue? I don't have the sense that the Supreme Court, as we have come to know it, is high on Mr. Will's list for this responsibility, and I would be mildly thunderstruck if he looked to either Capitol Hill or the White House. Some national commission? Highly unlikely. We need merely remember the Commission on National Purpose, or, for that matter, any other national commission. However, these reviewer's cud-chewings are no more than that. On the record of this profound as well as brilliant volume, no one has higher claim than George Will to the title Moral Philosopher Extraordinary of the United States—a kind of fourth branch of government.

The gentleman, as we learn in rich and engrossing detail from Shirley Letwin, was very mindful indeed of virtue, though he generally tended to believe that it, like Christianity generally, was not something to be brought too often into the marketplace. The true gentleman—and part of the author's boldness of argument is her contention that no real analogue of the English gentleman was to be found on the continent—lived by a code, largely Christian in foundation, though not to overlook feudal roots, and it could not often be said that he honored the code more in the breach than in the observance. The code was part of his being; it was the veritable tissue of Parliament, Whitehall, the university, the established church, and, far from least, the social club. To be a gentleman and to know one was, freed the mind nicely from preoccupation with such matters as mere merit. Obviously it was a true gentleman in England who, upon being elevated by the monarch to some hoary order, said that the nicest part of it was that there was no damned nonsense about merit.

But public pronouncement, much less homiletic, on such matters as virtue or piety was rare among gentlemen. Taste, yes, but not virtue. Too close an association with one or other virtue in public opened one

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to the charge of enthusiasm. The English lady who said that, as far as she was concerned, people could do whatever they wanted in the streets, so long as it didn't scare the horses, spoke like a gentleman as well as gentlelady. As Mrs. Letwin shows in rich and savory detail, the English gentleman, as revealed to us in Trollope's many pages, tended to see politics as a kind of game, a serious and important game, of course, but one to be governed by the usual boundaries and restraints which lie in game-rules, not, certainly, by rushes of moral enthusiasm. If there is one thing I miss in her book it is a sufficient attention to the loathing of enthusiasm in the English gentleman's mind—religious and political alike. The history of modern politics teaches us that enthusiasm is an indispensable requirement of all efforts to instill someone's conception of virtue in the public mind through law or constitutional amendment.

Trollope's own envisagement of morals-cum-politics is deliciously given parable by his account of a political program for euthanasia in the novel *The Fixed Period*. Under this idealistically conceived program, all citizens reaching sixty-seven would be "deposited" for a year in honorable seclusion in a "college" and then put painlessly to death. In this way, people would be spared the "slippered selfishness" and the "senile weakness" which now tend to fray the social fabric. If men learned death, said the moral providers behind this novel legislation, they would have greater love for "the life of humanity." Naturally, these providers never use the word "death." It is always "mode of transition." No English gentleman of Trollope's age would have needed to be told that the whole episode of the preposterous Mr. Neverbend and his solution to the problem of old age in society was a delicious paradigm for the humanitarian enthusiasms which rolled like snowballs over the political and moral landscape in the late nineteenth century, growing almost exponentially under the ministrations of those whose highest commandment was the principle of A and B getting together to decide what C should do for X—C being, of course, William Graham Sumner's truly forgotten man. Thus the ever-fertile, rational, and humanitarian mind of Mr. Neverbend and his solution to the problem of old age and death may be seen as Trollope's comment upon the idiot enthusiasms of his day. Once, it is pointed out to Mr. Neverbend that the man who is to be painlessly put to death at the required age is still far richer in his strengths and capacities than is the young man who is to inherit the large estate. Shouldn't, then, an exception be made? Mr. Neverbend's indignation is delightful:

> 'What, the whole system was to be made to suit itself to the peculiarities of one individual constitution'? Only someone who could see 'nothing of the general beauty of the Fixed Period' could raise such an irrational objection. The Fixed Period had been chosen with reference to the community at large. It was founded on an undeniable philosophical truth and had been translated meticulously into a practical scheme which would make humanity 'prosper and be strong, and thrive, unpolluted by the greed and cowardice of a second childhood'. Anyone who could see reason, whatever his personal condition, would say happily when his time came: 'Lead me into the College and there let me prepare myself for that brighter life which will require no mortal strength'.

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There are many salubrious guides we acquire from the code of the gentleman in Shirley Letwin's fascinating book. She has mined Trollope with scrupulous but generous disposition. Our Victorian forefathers, Liberal and Tory alike, were far from unmindful of the relation that must exist between government and morality. Most of them thought, however, as did the Framers of the American constitution, that virtue is overwhelmingly within the domain of family, church, and community, and that while a great statesman such as Washington and Lincoln can occasionally raise the level of morality in the nation, this comes not from conscious pursuit of virtue but from skillful steering of the ship of state.

Robert Nisbet

Reaganomics Before and After

TOMORROW, CAPITALISM. *By Henri Lepage*. (Open Court, LaSalle and London, 1982) $14.95.
TAX REVOLT. *By Alvin Rabuska and Pauline Ryan*. (Hoover Institution, Stanford, California, 1982) $16.95.
GREED IS NOT ENOUGH. *By Robert Lekachman*. (Pantheon, New York, 1982) $13.50.
HOW TO END THE MONETARIST CONTROVERSY. A JOURNALIST'S REFLECTIONS ON OUTPUT, JOBS, PRICES, AND MONEY. *By Samuel Brittan*. (Institute for Economic Affairs, London, 1982) $1.50.

While browsing through the London School of Economics bookshop one day in 1976, I was struck by the number of recently published books and monographs which appeared to blame Britain's economic problems on excessive taxation, regulation, and public sector mismanagement generally. It seemed from the titles on the bookshelf that, during my two years' absence from Britain, there had been a dramatic change in both academic and popular thinking about economic issues. With the advantage of hindsight, it is now easy to view those books and monographs as precursors of the intellectual and attitudinal changes which would subsequently help to elect a new and radical Conservative Government under Margaret Thatcher in 1979.

If some future historian ever searches for similar background material with which to understand the conservative swing in American politics that became apparent during the late 1970s and culminated in Ronald Reagan's 1980 election victory, he will find it in *Tomorrow, Capitalism* by Henri Lepage and *Tax Revolt* by Alvin Rabuska and Pauline Ryan.

Henri Lepage is a French journalist who came to the United States during the mid-1970s in order to investigate what he calls "the new economics." *Tomorrow, Capitalism*, which was originally published in

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France during 1978, is a summary of what he found. The range of political and economic thinking which he reviews is remarkably extensive. It includes the theory of human capital, the economic theory of property rights, the new economic history, the theory of public choice, monetarism, and libertarianism.

Despite the broad scope of the book, however, Mr. Lepage missed some very important people, such as Dr. Martin Feldstein (a pioneer in the analysis of social security and its impact on saving), Dr. Robert Lucas (rational expectations theory), and even Dr. Robert Mundell and Dr. Arthur Laffer. There is no mention of supply-side economics, at least no mention of the term, and the chapter on monetarism failed to anticipate any of the subsequent disagreements about fixed exchange rates, measurement of the money supply, or the gold standard. These omissions notwithstanding, the Lepage book is still a useful and very readable layman's guide to many aspects of American economic thinking on the right, especially in microeconomics, before it became fully fashionable at the end of the 1970s. Mr. Lepage brings together a great deal of material in support of his argument that "we are silently experiencing the birth of the new economic libertarianism of tomorrow, based on a rigorous general theory of capitalism."

Mr. Lepage devotes the first third of the book to analyzing several controversial issues in economic history. Was the English Industrial Revolution beneficial to the working class? How important was the railroad to American economic growth in the 19th century? Were the antitrust laws necessary to maintain competitive markets in the U.S.? Why did feudalism decline? How did private ownership of agricultural land evolve in England from the system of common land ownership which prevailed before the wool boom of the 18th century? He reopens the debate on each of these questions in order to demolish what he perceives to be dangerous and misleading myths about the economic history of the United States and Britain, and especially to "undermine the comfortable historical commonplace that traces all improvements to the government and evils to the marketplace." Complementing his rebuttal of much left wing criticism of the market economy's role in Western history is a strong emphasis on the overwhelming importance of private property to successful economic performance. He argues that:

> ...the appearance of economic growth in Europe was no historical accident linked to a sudden technological revolution in the eighteenth century. Early modern Europe probably did not count among its inhabitants more investors, innovators, or men of genius than eleventh century Europe or the Chinese empire at its apogee. What distinguished it from other periods of history, and from other great civilizations that preceded it, was the peculiar system of property rights, which made innovative activity more profitable than anywhere else and ever before. Because of the drop in costs and the increase in the possibility of gains, more individuals began taking risks that had been too expensive for their ancestors. It was not people, but their institutional environment, that had changed.

With this historical foundation laid, the author proceeds to examine recent American theories about the growth of the state, and the challenges which modern government poses to economic freedom. The

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dominant influence in these chapters is the "public choice school," as outlined in the works of James Buchanan and Gordon Tullock. Mr. Lepage is excited about public choice theory, because it distinguishes between an optimum and suboptimum role for government rather than automatically rejecting a role for government altogether. As he carefully explains,

> Public choice has no wish to dismiss government intervention out of hand; it seeks (instead) to make people aware that the state is a no less imperfect mechanism for allocating resources than the market. It wants to apply to the state and the public sector the same techniques that have been used for three decades to register the defects of the market economy. Public choice economists suggest not that we lapse into the Manichean view—still prevalent in some conservative circles—that denounces the 'vicious' state and extols the 'virtuous' market but that the government intervene only where it is evident that the market solution really is more costly to society than public intervention. The objective of public choice is, in a sense, to reverse the burden of proof; instead of starting from the principle that any intervention is legitimate as soon as market imperfections are recorded, they want to be sure that the imperfections of government mechanisms are not greater than the market imperfections we want to remedy.

Having defined his theory of what constitutes optimum government, Mr. Lepage goes on the attack, surveying the deficiencies of government intervention in a wide range of policy areas: transportation regulation, professional licensing, social welfare spending, land use planning, environmental protection, education, and so on. He concludes this section of the book with a fascinating chapter on Gary Becker (who remains practically unknown outside of academic circles) and his human capital theory. Professor Becker's work deserves special attention, in his opinion, because it provides a rigorous microeconomic explanation for all aspects of human behavior and social organization. It thus provides a framework for implementing the optimal government philosophy of the "public choice school."

From the perspective of 1982, one of the most striking things about the final chapters of *Tomorrow* (monetarism aside) is the extent to which some of the author's most basic themes are now widely accepted in the United States. Government deregulation of the transportation, energy, and financial industries began under a Democratic administration at about the time Mr. Lepage's book first appeared in France. Economic ideas which were identified primarily with the University of Chicago ten or twenty years ago now have a wide following in academic institutions all over the United States. Organizations such as the Heritage Foundation and American Enterprise Institute now publish dozens of monographs a year about the costs of inefficient regulation to particular industries, the consumer, and the economy generally.

In fact, what would probably most surprise a European on a return visit to the U.S. today is the extent to which this change has occurred without any sharp ideological debate about the role of government or a dramatic polarization of the society between left and right. An intense philosophical debate about the role of government has been occurring in the U.S. to be sure, but much of the momentum for deregulation

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and more rigorous microeconomic analysis of government intervention has resulted from a practical desire for efficiency and cost effectiveness rather than a rereading of political philosophy. The counter revolution of recent years has been led as much by M.B.A.s and econometricians armed with computers as by people with an understanding of the decline of feudalism or public choice theory. As James Buchanan himself notes in the introduction to *Tomorrow*, "Modern economics, as a discipline in the (American) academy has almost totally failed in its didactic role." The Reagan revolution is adding a great deal of ideological zest to the movement towards deregulation and more "optimum government." But when historians look back on the current period in twenty years' time, they may wonder if the most durable elements of the Reagan revolution were not bound to happen anyway because of the intellectual currents already stirring beneath the surface when Henri Lepage came to the United States in 1976.

While *Tomorrow* provides a far-reaching exposure to many of the intellectual trends which preceded the Reagan election victory of 1980, *Tax Revolt* examines a grass roots movement to translate public resentment about the growth of government spending into a practical political program. The book provides a detailed history of the California tax reduction movement which culminated in Proposition 13. It is very thorough, almost too thorough for someone without a strong interest in California politics; but for that reason it is a good case study of the political process at work. It also provides some fascinating background material on the biggest spender in postwar California politics, Governor Ronald Reagan.

Although four years have passed since Proposition 13 was first approved, it is still not possible to make a complete assessment of its effects. Alvin Rabuska and Pauline Ryan explain well what the tax revolt did *not* do, such as fulfilling opponents' charges that it would destroy essential public services, or cause a recession, but more time and research will be needed to understand its full consequences. The book argues, for example, that Proposition 13 contributed to a dramatic upsurge in employment and economic growth, but the authors then fail to examine where the employment growth occurred and what might have happened in the absence of Proposition 13. A counter factual economic history study of the type reviewed in the Lepage book would have been most useful.

It makes intuitive sense to argue that tax reduction is beneficial for a state's economic growth. But the process by which it promotes growth is still not fully understood. This case study of California, so thorough in many other respects, adds little to this debate, except to restate old assertions and cite a few macroeconomic statistics. Indeed, there is a remarkable paucity of material about how state and local tax rates around the nation compare and what impact they have on economic performance. Why has Minnesota, with the highest marginal tax rates in the country, spawned so many successful entrepreneurs and new corporations in the past three decades, while other midwestern states with much lighter tax burdens stagnated? Why did the low tax rates prevalent in the southern states for many decades prior to the 1970s do so lit-

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tle to encourage economic growth until recently? *Tax Revolt* does not answer these questions.

But while the economic discussion is incomplete, the political side of *Tax Revolt* is fascinating, especially when one ponders its implications for the Reagan administration. Proposition 13 attracted widespread public support because of a perception that it would benefit everyone, landowner or renter, in a material way. A subsequent referendum to reduce the income tax burden was unsuccessful partly because many people believed that it would favor the rich more than middle-income or low-income people. The Reagan tax program makes economic sense, from the vantage point of encouraging savings and incentives because it provides everyone, rich or poor, with a proportional income tax cut aimed at reversing the inflation-induced bracket creep of the late 1970s. But the experience of Proposition 13 suggests that the president may derive far less benefit from his tax program than it deserves, because the rich will clearly get more dollars back from it than the middle income or poor.

Professors Rabuska and Ryan also raise an important question about how much the voters really *wanted* to cut public spending during the late 1970s. They supported Proposition 13, knowing that there was a large state surplus to absorb the revenue loss, but rejected income tax cuts two years later, partly because they would help the rich but also because the state surplus was gone. Opponents were then able to argue more persuasively that big service reductions would surely follow. Was Proposition 13, one wonders, a referendum to slash public spending? Or a referendum to spend the state surplus on lower property taxes? The polls suggest both factors played a part.

Whatever the final answer, the authors conclude that Proposition 13 was more effective at slowing spending growth than a later proposition (number 4) which mandated slower spending growth but did nothing to reduce public revenue. This, too, has important implications for the Reagan economic program. While there is fierce debate about the supply-side consequences of tax cuts, there is remarkable agreement that they will at least force Congress to restrain spending by denying it new revenue. President Carter might have balanced the budget by 1983 simply because of the revenue growth produced by inflation. In fact, the new movement for a constitutional amendment to balance the federal budget may be a godsend to liberal Democrats because it could conceivably give them the authority to enact tax increases which would guarantee a permanent and uninterrupted flow of money into new spending programs.

An issue which Professors Rabuska and Ryan might have explored further in a California context is the breakdown during the past decade between public expenditures for current services and capital projects. If the tax revolt movement had not been slowed by the recent recession (which is finally forcing California to cut spending), it almost certainly would have run into problems at some point because of an issue which now seems to rate a headline a month in the nation's media: the decay of the country's public infrastructure. If we are to believe these press reports, the country will have to spend billions of dollars repairing high-

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ways, bridges, and sewers during the next decade, because during the 1960s and 1970s, politicians tried to pay for rapid growth in social service expenditures by cutting back on infrastructure maintenance and improvement. While the quantity of public spending grew rapidly in the past two decades, its quality deteriorated. There was too much consumption, too little investment.

The first generation of tax revolt leaders, like the Reagan administration in 1981, had a field day campaigning for tax cuts. The next generation will have to grapple with the much more difficult task of setting actual priorities for public spending and asking the people to accept them. Here the risk is that infrastructure improvement in the 1980s will produce new taxes which will then be diverted back to social expenditure programs in the 1990s. We may need not only a continuing tax revolt, but a revolution in the way we account for public expenditures to get effective control of state and local government spending.

After Ronald Reagan's landslide election victory, most liberal Democrats decided to keep quiet and give the president twelve to eighteen months to demonstrate that his program either could not work, or did so at such a high cost that it was intolerable. Not so with Robert Lekachman. Almost immediately after the Reagan inauguration, he went to work writing *Reaganomics, Greed Is Not Enough*.

The book is ostensibly about the Reagan program. But the discussion of Reaganomics is simply the focal point for a strident polemical denunciation of capitalism, corporations, the Pentagon, and anyone with an income above the median. Indeed, the flavor of the book is quickly apparent from the chapter headings in the table of contents: Taxes, the Falwell Fix (about supply-side economics), Fill It to the Rim with Grim (about budget policy), and Corporate Lib (about regulatory policy).

There is doubtless plenty to criticize in the Reagan program, but Professor Lekachman rapidly disqualifies himself as a credible analyst. In the chapter on tax policy, for example, he says:

> It is permissible to be skeptical about extravagant claims for the incentive impact of lower marginal tax rates on a second ground, embarrassing to supply side enthusiasts if they did not generally ignore it. Broadly speaking, taxes on capital gains, large incomes, and corporate profits have been steadily declining for a dozen years. For practical purposes, Congress has been quietly phasing out the corporate profits tax as a revenue source... Why, it might legitimately be asked, haven't these amply rewarded managers and investors already unleashed the investment boom needed to renew economic growth and make America great?

In actual fact, real tax rates on both individuals and corporations have been rising steadily during the past decade because of the interaction of inflation with a progressive income tax code and corporate cost accounting systems based on historic values rather than current cost. There is not a single financial instrument denominated in U.S. dollars which paid a positive real after-tax return to people in high income tax brackets during the 1970s. Professor Lekachman seems to think that bracket creep was exclusively a problem for low-income people, but *all* income tax cuts between 1963 and 1978 were skewed entirely towards taxpayers earning under $20,000.

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The chapter on monetarism starts out intelligently, but then shifts to outrageous assertions about what monetarism really means. First, it is alleged to be supported by bankers who want to increase their profits, then a conspiracy to impoverish the economies of states which elect liberals to Congress.

> For American politics, persistence in monetarism carries an ominous implication. The energy barons and the defence contractors have traditionally financed the Far Right. The relatively civilized capitalists of the Northeast have frequently supported moderate Republicans. Political power follows the flow of wealth. The monetarist threat is, if possible, more serious as a political than an economic phenomenon. A tidal wave of funds for reactionaries might swamp not merely the remaining handful of congressional liberals, but also old-fashioned conservatives with lingering affections for civil liberties and civil rights and a frugal version of the welfare state.

The reality, of course, is quite different. First, high interest rates have destroyed the profitability of many financial institutions, especially those specializing in long-term, fixed rate lending, while greatly adding to the deposit cost management problems of all others. Secondly, it was precisely the easy money policies of the 1960s and 1970s, so beloved by Professor Lekachman, that helped to spawn the energy and real estate inflation which produced so many of the new Republican "sunbelt fortunes."

Indeed, the biggest casualty so far of the Federal Reserve Bank's (Fed) tight money policies has been an Oklahoma bank, which specialized in energy lending, and whose failure has cut off financing to hundreds of small or medium-sized energy entrepreneurs, probably most of them enthusiastic supporters of Ronald Reagan. The sunbelt states were destined to enjoy greater prosperity in the 1970s, but easy credit greatly speeded up their growth process. The adjustment to monetarist economic policies will be most difficult for those who expected inflation and rapid growth to cover up all of their mistakes. In the first half of the 1980s, energy promoters and real estate speculators will top the list of casualties.

Intelligent writers on the left are now pondering the causes of economic decline in the 1970s and what they imply for the future of social democracy and the welfare state. Not so with Professor Lekachman. His scapegoat for the 1970s was Jimmy Carter, a southern conservative masquerading as a populist do-gooder. Not once does he seriously explore such problems as the demographic pressure on the social security financing system, the role of trade unions in creating structural unemployment, or the efficiency of wage/price controls in an economy straining to expand. In his book, there are only good guys and bad guys. The good guys are always the government, left wing trade union leaders, and businessmen who want a strong interventionist government, such as Felix Rohatyn. (One wonders what Professor Lekachman would have done with John Connally style corporatism.)

One writer who should produce a good critique of the Reagan economic program is Samuel Brittan, whose 1981 monograph, *How to End the Monetarist Controversy, a Journalist's Reflections on Output, Jobs, Prices, and Money*, reappeared in updated form this spring. Mr.

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Brittan is a regular contributor to the *Financial Times* op-ed page and probably one of the two or three best economic journalists in the English-speaking world today. In fact, he has no exact counterpart in the American press. The U.S. press is very good when it comes to business reporting, but it is very deficient in the area of economic journalism unless one broadens the definition to include Wall Street newsletter writers. In fact, one of the subtler ironies of the current period is that the quality of economic journalism often seems to vary inversely with a country's economic performance. As inadequate as American economic journalism may seem today, it is still vastly superior to that which existed twenty years ago, when the country was far more prosperous.

British economic journalism often fascinates Americans these days, because they have been where we appear to be going. While new social fads may start in California, the economic decline of the West started first in Britain and so British journalists frequently tend to have valuable insights on what may happen next in the United States. Indeed, during 1978 and 1979, there was only a handful of American economists who came close to rivaling the accuracy of *Financial Times* columnists, such as Samuel Brittan, in diagnosing the problems of the American economy and predicting where they would lead. His little book is especially valuable because it contains a sober, dispassionate analysis of monetarism from someone who embraced it very early and thus has had considerable time to reflect upon its uses and abuses. It is impossible to overstate the relevance of such a discussion to the United States, because the Reagan economic program was founded on perceptions about the conduct of monetary policy, which were seriously flawed and inconsistent with many of the objectives of fiscal policy.

There are four major themes in the Mr. Brittan's book: First, that the goal of monetary policy is to contribute to price stability and, to a lesser extent employment stability, by keeping total spending (money GDP) on a steady path without large fluctuations up and down. Secondly, that attempts to guide monetary policy by focusing solely on narrow measures of the money stock are based on the fallacious premises that the demand for money comes mainly from its own citizens and is stable over time. Thirdly, that there is a minimum underlying rate of unemployment, which is consistent with price stability, and that it cannot be reduced by trying to increase the level of total nominal spending in the economy without generating worse inflation. And, finally, that if the noninflationary rate of unemployment is unacceptably high, the only way to reduce it consistent with lower inflation is by enacting supply-side policy changes which correct structural rigidities and inefficiencies to the markets for labor (reduce trade union power), housing (eliminate rent controls or public housing rules that retard labor mobility), and other resources (eliminate taxes which discourage saving).

It is a pity this book was not around eighteen months ago because a quick perusal of the summary would have exposed some of the contradictions in the Reagan program. First, the initial Reagan budget strategy, as outlined in early 1981, was based on the assumption that nominal GNP would expand by 12–13 percent while the Fed's money growth targets were consistent with only 8–9 percent nominal GNP growth. When

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outsiders questioned administration economists about this apparent contradition, they were told that supply-side would produce a surprise surge in velocity, making the money targets consistent with a higher level of nominal GNP growth. If velocity were to be so accommodating, of course, the logical question to ask is: Why have money targets in the first place?

Secondly, when it became apparent that the budget deficit would increase dramatically after the tax cuts, administration spokesmen denied that this would pose any challenge to monetary policy. The government, they said, would merely borrow back the tax cuts while still leaving the economy with the incentive effects of lower tax rates. On the surface, this answer struck many as simple and reasonable. But a massive increase in borrowing by the government still had to be cleared by the financial markets at a price which reflected some of the risk that the Fed might not be able to avoid monetizing a large budget deficit forever. During the past two decades, total private sector borrowing in the American economy has tended to average about 12–13 percent of GNP with numbers as low as 8–9 percent in periods of recession and numbers as high as 17–18 percent during periods of accommodative monetary policy and rapid economic growth such as 1976–1978.

If the total level of borrowing as a share of GNP is to be held in a traditional noninflationary range while government borrowing shoots up to 4–5 percent of GNP, the private sector has to be crowded out unless the savings rate can be sharply increased through a change in the tax rate. Given the modest nature of the Reagan tax changes, when adjusted for inflation, there was little reason to expect that they would suddenly revolutionize saving behavior and allow the government to sharply increase its borrowing without creating friction in the financial markets.

Since the Fed was committed to monetary targeting before the election of the Reagan administration, one could argue that a recession would have happened in 1981 and 1982 regardless of who was president. The inertial rate of inflation still present in the U.S. economy during early 1981 was about 8–9 percent and thus too high for any real economic growth so long as the Fed adhered to money growth targets consistent with only 8–9 percent nominal GNP growth. In a monetarist world, the budget deficit affects the mix and not the level of economic growth. But the Reagan administration worsened the distributional problems of adjustment to monetarism and disinflation by introducing a fiscal policy which added to the crowding out pressures on credit sensitive industries, such as housing, autos, and capital spending. Exports suffered, too, because of the impact of high interest rates on the dollar.

If the resulting economic crisis were not so serious, the irony of the situation would be highly amusing. A financial community which greeted the Reagan election victory in 1980 as the start of a crusade for private sector revitalization will now devote most of its energy to funding the government deficit. In order to contain the size of the deficit as the economy deteriorates, the administration is now committed to increasing taxes on business and repealing some of last year's investment tax incentives while resisting any change in personal tax rates.

Meanwhile, back in the corporate sector, the profit share of GNP has

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fallen to a postwar low and pushed capital spending into a decline rivaled only by that during the great OPEC slump of 1974-75. The squeeze on corporate pricing power and profit margins caused by high real interest rates and an overvalued dollar exchange rate has given a substantial boost to real personal income growth, which, on top of the tax cuts, is starting to produce an anemic economic recovery led by beer, cigarettes, fast food, and video games.

Adding to the weirdness of the whole spectacle is the explanation now being put forward by the administration for what went wrong. In recent weeks, monetarists at the Treasury, led by Beryl Sprinkel, have tried to set up the Fed as a scapegoat for the economy's ills. A year ago, they warned that the Fed might jeopardize Reaganomics by pursuing too easy a policy in 1981 and thus drive up interest rates by igniting new inflation fears. Money growth finished 1981 comfortably under target, so no one can accuse the Fed of having been too permissive. Instead, the new line from the Treasury is that money growth has been too volatile; that M1 and bank reserves bounce around too much from week to week, unsettling the markets and driving up interest rates.

Money growth, seasonally adjusted or not, *is* too volatile. But it is less volatile in this country than in many other Western economies where market interest rates are much lower. Moreover, if skepticism about monetary policy being restrictive were really the cause of high interest rates in the U.S., one also would expect to see evidence of such skepticism in the gold market, the currency markets, or the stock market. When Dr. Sprinkel criticized the Fed for being too easy in late June, practically all financial markets and commodity prices were at three year lows. Something else must be wrong.

Indeed, there is. Even Mr. Brittan is now telling his old friends in the American monetarist community that they are sailing off the end of the world in search of explanations for high interest rates which ignore the obvious causes: First, an imbalanced administration economic strategy imposed on an economy where severe Fed restraint came as a surprise and thus left many corporations short of the cash needed to finance inventory, capital spending programs, and wage agreements based on inflation assumptions that are now far too high. Secondly, an insular approach to monetarism which ignores the interaction between U.S. monetary policy and that in other countries. With the dollar so strong because of high interest rates, U.S. money statistics have been inflated by overseas demand for U.S. currency (which has no effect on domestic spending) while foreign central banks have had to pursue tighter monetary policies in order to prevent their own currencies from dropping further. Because of the increasing influence of international factors on domestic money supplies, Mr. Brittan is a strong supporter of Professor Ronald McKinnon's program to have the major industrial countries coordinate their money growth. That way excessive tightness in the U.S. will not produce a vicious cycle of restraint in other countries, plunging the whole world into a progressively more severe downturn.

What comes next? If the U.K. experience is any guide, the U.S. is probably headed for a new mix of monetary and fiscal policy. In 1981, the Thatcher government sharply increased taxes as a quid pro quo for

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an easier monetary policy and a drop in the sterling exchange rate. The budget was initially condemned by practically everyone, but today it is regarded as a turning point in stabilizing the U.K. economy despite the fact that the tax increase was equivalent to a stunning $60–70 billion in U.S. terms (adjusted for per capita income and population differences).

The first signs of a similar change in U.S. policy are already becoming apparent. In his recent testimony before Congress, Chairman Volcker announced a money growth target for 1983 which will not be any lower than the money target for 1982; that is a significant change from the Fed's previous policy of always reducing its money growth targets for the year ahead. In recent months, Chairman Volcker also has been downplaying the importance of targeting the narrow definition of money because of confusion about NOW accounts and how to measure the transaction demand for money (if that is still possible). Money growth targets will remain important, but they will be complemented as a policy anchor by judgements about real interest rates, commodity prices (not just gold, though), and the economy itself. Indeed, since the change in U.S. monetary policy in averting a banking crisis, the stock market surged up one hundred points.

Because of this November's election, the outlook for fiscal policy is more murky, but the budget deficit will have to be reduced if the administration is to alter the mix of economic growth more in favor of investment, housing, and exports and away from consumer spending. There will probably be a tortuous series of budget compromises affecting both revenue and spending growth. If the administration can retain control of the political agenda, tax increases will probably be indirect (sales and excise) rather than on income and be complemented by some movement towards a flat rate or narrow bracket income tax system. If they fail to control the agenda, we may lose income tax indexation as well as any intermediate-term momentum for more far-reaching tax reform. In any case, much of the new tax burden will ultimately have to fall on the personal sector, directly or indirectly, because the corporate sector is broke.

Whatever the specifics of future budget adjustments, the stakes in revising the administration's economic strategy are very high. If the economy stumbles along for another two years, there will be new financial accidents and unemployment will remain high. An American Mitterrand could emerge in the 1984 elections, forging a new political coalition combining the traditional public spending constituencies of the Democratic party with protectionist trade union and business groups in the depressed industrial states of the Midwest. By that time, there may even be strong pro-inflation constituencies in the commodity producing regions of the South and West.

There are no simple miracle cures to the economic problems of the Reagan administration, but policy will be much more lucid and credible if the administration actually understands how the financial markets and the international economy have evolved since contemporary monetarist theory started gaining widespread acceptance ten years ago. In Sam Brittan's book, they will discover that even for a monetarist these days, central banking remains an art rather than a science.

David Hale

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